BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

PAGE ONE

MAY 1935

The Puzzle of Prices and Yiel

$17,500,000,000 Deposits in Stat

Shifting from Bonds to Bank I

A Turning Point in Financial H

SKIDMORE COLLEGE CUTS FUEL BUDGET BY MODERNIZATION

Diverse Needs of 19 Campus Buildings Met by Webster Moderator System

PROVIDES CENTRAL CONTROL

Slash Yearly Heating Bill Average of 21½ P. C. as New Program Pays For Itself

ASSURES STUDENT COMFORT

Saratoga Springs, N. Y.—Nineteen Skidmore College buildings, controlled as regards heating from one central point, are burning approximately 22 per cent less fuel every month as the result of a Webster heating modernization program carried out during the fall of 1933.

In less than two years, this institution has slashed its heating budget nearly $7,000. At the present rate of savings, the entire cost of modernization will be liquidated in less than four heating seasons.

Webster Moderator Control was the choice of Skidmore College officials because of its adequacy in meeting the diverse heating needs of lecture rooms, dormitories, reading rooms, science laboratories, gymnasium and swimming pool.

"Perfectly balanced heating was not accomplished over night," Dr. John R. Hobbie, director of buildings and plant, points out. "Warren Webster & Company kept the installation under careful observation until all engineering difficulties were corrected and the system was operating at maximum efficiency.

"Despite the handicap of unusually severe weather, steam savings during the first complete heating season totaled 7,679,000 lbs. For the first 5 months of the 1934-35 season we saved 5,943,000 lbs."

Savings are computed on the difference between the current monthly steam cost and past monthly steam consumption over a three-year period, after correction for degree day differences. The operating schedule provides approximately 15 hours of heating service daily for average winter weather.

Sharply reduced incomes have lately forced most educational institutions to abandon long-term borrowing in favor of pay-as-you-go programs. The fact that heating modernization is more likely to be self-liquidating than any other building improvement has stimulated activity in this field.

"In addition," observes Dr. Hobbie, "the elimination of discomforts and distractions is an important contribution to the health and comfort of faculty and students."

Wm. P. Tarrant, who acted as modernization heating contractor, substantiated these performance facts saying: "Provided the central controls are adequate, institutional groups can effect large savings by heating modernization."

If you are interested in (1) improved heating service and (2) lower heating cost in your building, address

WARREN WEBSTER & CO., Camden, N. J.
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PAGE ONE

Investments

ON last June 30 New York City central reserve banks held Government securities in the proportion of 33 per cent in bonds, 36 per cent in notes and 31 per cent in short term obligations. On December 31 the respective proportions were 25.4, 51.3 and 23.3 per cent. The Chicago central reserve banks' proportions were 45.8, 33.2, and 21 per cent in June and 37.5, 40.3, and 22.2 per cent, respectively, in December. Other reserve city banks had 59.3, 32.7 and 8 per cent in June and 53, 44.4 and 2.6 per cent in December, while country banks had 74.1, 22.4 and 3.5 per cent in June and 73, 26.7 and 0.3 per cent, respectively, in December. The trend of the larger banks from long term bonds to middle term notes is striking. Possibly the sale of the longer term securities at a profit is a general and satisfactory reason for the movement.

*

Relief

Under the terms of the work relief bill the $4,880,000,000 is to be spent for highway construction, grade crossing elimination, rural rehabilitation, water conservation, irrigation, rural electrification, housing, white collar jobs, Civilian Conservation Corps, the prevention of soil erosion, sanitation and most anything else that can be thought of. The money is to be expended "in the discretion and under the direction of the President."

The latter can fix wages except that prevailing wages must be paid upon Federal building projects and the rates on other enterprises shall not be allowed to lower the wages paid by other employers. Of the money turned over to the states and their subdivisions at least 25 per cent, "in the determination of the President", shall be expended for labor. On an average something like 80 per cent of all expenditure in industry goes ultimately to labor.

*

Federal Financing

When borrowing for the new relief program expenditures will begin is uncertain since it is problematical how soon the various and several work relief enterprises can be put in motion. But late Summer or early Fall will witness a call for new money in great volume, and perhaps it is just as well that the Treasury get its principal refunding operations out of the way before the new call is sounded.

*

Transportation Legislation

The outlook at Washington for legislation regulating all transportation agencies of the nation is regarded as rather good in view of recent declarations by men in high authority; but inasmuch as the railways have waited between four and five years for the regulations possibly now in sight they are not likely to count upon the prospect until the new laws are on the statute books.

*

Interest

The average rate of interest paid by the Federal Government on all outstanding debt fell from 2.96 per cent on December 31 to 2.957 on February 28, the change being due largely to the increased financing by the sale of Treasury bills. The refunding of the Liberty bonds and other high coupon issues will further reduce this rate materially but it may be well to note that the interest paid by the Government on the present outstanding debt even at the lower rate amounts to $826,896,248 a year, and that total is increasing.

*

Orange Groves

"Increased activity in the purchase and sale of farm lands is reported from all parts of Southern California. A number of Orange County valencia orange groves have recently changed hands at prices varying from $1,800 to $2,800 per acre."—Monthly Summary of the Security-First National Bank of Los Angeles.

*

Reserves

The recent drop of about $400,000,000 in the excess reserves of member banks has fallen unevenly upon banks, with the result that there has been considerable shifting of funds by the "sale" of funds as between member banks to even up the situation. The drop in excess

(Continued on page 5)

GOVERNMENT AND INDUSTRY

Wendell L. Willkie, left, president of the Commonwealth & Southern Corporation, and Preston S. Arkwright, president of the Georgia Power Company, as they appeared before the House Interstate Commerce Committee. In a subsequent memorandum to the Committee Mr. Willkie made suggestions designed to meet Washington criticism of utility companies. He said: "Regulation cannot, by itself, secure adequate service at fair rates. It is management alone which can supply the service. Without effective management, the censor can do nothing except hasten the company into inevitable receivership"

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★ *Reproduction of an actual maturity check. Name deleted for obvious reasons.*

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THOS. COOK

The travel poster is always a reassuring sign of Spring

The articles on bank management in this issue: Lobby and Window Displays; Cooperative Purchasing; A Precaution in Cashing Checks; Safe Deposit Services; The Return on Time Deposits; Safe Deposit Charges; Before F.H.A.; Buying from Customers; One Per Cent Per Annum; Constructive Customer Relations; Mailing Department Efficiency; Profitable Leisure; Cooperation with Police; New Business Campaigns; Convenient Wall Maps.

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NEW YORK TIMES, WEDNESDAY, APRIL

BOND SALES ON THE NEW YORK STOCK EXC

ACCENT ON THE BOND ACCOUNT

WITH bank expenses mounting, sources of income dwindling, the bond account assumes unprecedented responsibility as an income-producer . . . Unprecedented, too, is the problem of managing this account, with today's new complications, uncertainties and challenges to the old, orthodox investment formulae . . . Now, more than ever before, America's banks are realizing the value of Moody's Supervisory Service . . . the value of having a fully-equipped organization of investment specialists constantly watching over their holdings . . . and a personal *counsellor* always at their disposal to help achieve the utmost in income, safety and stability. . . . Let us show you how much this service can help your bank, how little it will cost you.

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JOHN MOODY, *President*
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NEW YORK CITY

SOVFOTO

"EXPLORATORY CONVERSATIONS"

Capt. Anthony Eden (center), British Lord Privy Seal, is met at the White Russian-Baltic Station in Moscow by the British Ambassador, Lord Chilston (left), and Maxim Litvinoff, Soviet Commissar for Foreign Affairs. Capt. Eden's interviews in Moscow, Warsaw and Prague furnished much of the subject matter for the Stresa conference

(CONTINUED FROM PAGE 1)
reserves, caused partly by the deposit of money to provide for the retirement of national bank notes, is temporary. When the consols and Panama issues are retired in July and August the pendulum will swing far the other way and excess reserves will doubtless establish a new record.

*

Size

Sixty per cent of the commercial banks of the United States have deposits of $500,000 or under and account for only 5.36 per cent of the total of commercial bank deposits. Ninety-six banks, constituting 0.63 per cent of the total number, hold 51.91 per cent of the total deposits—in fact, 4.91 per cent of the number of banks hold 74.51 per cent of all deposits. No other country in the world presents such diversity in its banking structure.

*

National Bank Notes

Preparations on the scale of about $800,000,000 are now going on for the retirement of national bank notes. This is reflected in increasing deposits in the Treasury of lawful money to replace bonds held against outstanding notes which, by the way, may require some time for withdrawal from circulation. The change in the currency will require a considerable shift of bank funds in many cases, but it is doubtful if so large a volume of currency has ever been retired and replaced in any country with so little disturbance as this retirement of national bank notes is likely to cause.

*

Spending

By order of the President most enterprises undertaken in the work relief program are to be completed by July 1, 1936. That means that most of the appropriation will be expended in the course of a year, or at a rate of something like $9,000 every minute. Since much of past relief and agriculture aid funds have been going into new automobiles it may be well to add that the work relief appropriation will buy about 10,000,000 new low priced cars. Whatever may be thought about the amount and nature of relief, the money has been appropriated and all that now remains is to see to it that the nation gets its money's worth so far as that is possible.

*

Nation's Credit

"This generation has, in a sense common with no other, the responsibility of preserving the credit of the nation. It can do so only by self-reliance and a resolution to demand no more in governmental expenditure than stark necessity demands."—The Girard Letter of

the Girard Trust Company, Philadelphia.

*

Savings

One explanation of the increase in the number of persons on relief is that the number who have finally exhausted their savings is increasing. This explanation, offered for the past three years, is not very convincing in face of the fact that the number of depositors and the amount of deposits in savings banks have been steadily increasing, that building and loan associations show new growth, that bank deposits of individual depositors are steadily on the upgrade. There is nothing inconsistent between this and a certain amount of unemployment relief but there is considerable inconsistency between improving business and increasing doles.

*

Cheap Money

Between January, 1934, and January, 1935, commercial paper outstanding increased by $63,000,000 to a total of $171,000,000, while acceptances outstanding decreased by $255,000,000 to $516,000,000. At the end of February bankers' bills stood at $428,000,000, the lowest point in years. The explanation, of course, is that the commercial paper method of financing is a trifle cheaper than the bankers' bills method. What is more significant is that in many cases good customers can secure straight advances quite as cheaply.

*

Bonds

Continued over-subscription for all offerings of high grade bonds demonstrates the increasing bond-mindedness of investors. The usual course of sentiment along such lines is from high grade bonds to secondary issues, followed by better grade stocks, and then all down the list. Recovery from most business depressions has usually been heralded by a rising bond market and there is no reason to expect that the course of things in the present situation will be any different.

*

Southern Harvests

"In the six states located wholly or partly in the Sixth District, increases over harvested acreages in 1934 are indicated for oats, tobacco, rice and tame hay, while decreases are indicated in corn, potatoes, sweet potatoes, peanuts, soy beans and cowpeas."—

Monthly review of the Federal Reserve Bank Of Atlanta.

*

Municipals

The supply of municipal, state and similar high grade bonds in the past month has come close to meeting the demand and as a result a slight lag in interest on the part of investors set tongues to wagging. As the situation clears, however, it is evident that there is no likelihood of any marked change in investor policies, and issues of these high grade securities in the immediate future will be put out at record low rates. What is the investor's loss is the taxpayer's gain. This, however, isn't much comfort to a bank manager trying to make both ends meet.

*

Federal Land Banks

A huge oversubscription was received for the $162,000,000 issue of 10–20-year consolidated 3¼ per cent bonds of the twelve Federal land banks, marketed by a banking group and offered by Charles R. Dunn, fiscal agent. The bonds provided funds for retiring approximately the same amount of 5s, due in 1941 and called as of May 1, 1935. The new issue, due May 1, 1955, is callable on and after May 1, 1945. Holders of the old bonds received preference in the allotment of the 3¼s, which were offered at 100¾ to yield about 3.16 per cent to the first redeemable date.

The total subscription, including cash and exchanges, approximated four and one-half times the amount of bonds offered. Many large blocks were taken by individual investors, but banks seeking a long term investment were liberal buyers. The operation was regarded as highly successful from the standpoint of the land banks.

*

R.F.C.

The Reconstruction Finance Corporation, in addition to its advances on Government account, has live credit outstanding in excess of $2,500,000,000. It long since became the largest bank in the world and in the course of its business has acquired outright ownership or control of several hundred banks, three insurance companies, one real estate mortgage company, one profitable railway and several others not so profitable, 4,000,000 bales of cotton, and authority to control about 2,000 public utility plants in the Middlewest through the Utilities Securities Corporation. The R.F.C. has gone a long way ahead of what its originators conceived as possible, much less probable.

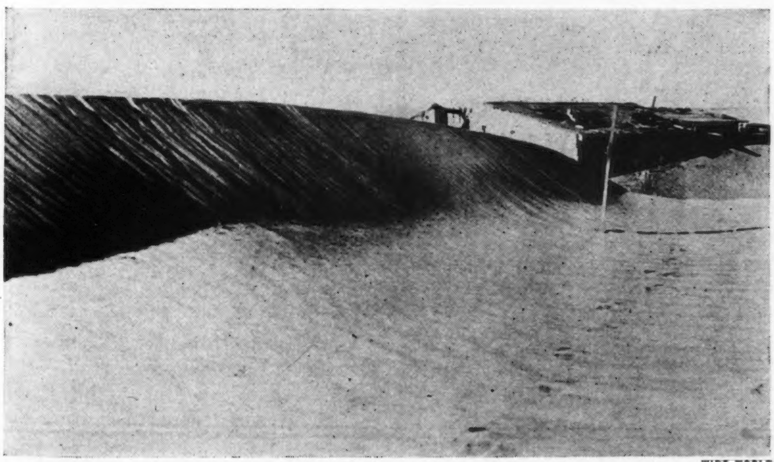
*

Industrial Loans

Applications for industrial loans from the Federal Reserve banks have fallen off by two-thirds since the beginning of the year and the volume of loans granted has dwindled from month to month since the peak of the demand last November and December. One reason for the decline is that many applicants for loans, having found that a Federal Reserve advance is no Santa Claus proposition, are no longer interested. The peak never was very high, but the at-

WESTERN DUST

Dust storms over a large agricultural area intensify such problems as crop control, evacuation of farmers, relief and conservation



WIDE WORLD

tempt at this method of financing at least has had the merit of satisfying many of those critics in whose opinion commercial banks could do nothing right.

*

Off Gold

Not so long ago, the world indulged in the belief that while a nation had an ample gold reserve it could not or would not be forced off the gold standard. The case of Belgium illustrates the fact that other conditions may be more effective. When the government at Brussels devalued the belga by 28 per cent the Bank of Belgium had gold backing as against total note and deposit liabilities of about 66 per cent.

Even in the face of a flight of capital at the time of devaluation its reserves were ample on currency and deposit account. Nor were foreign balances in Belgium such that withdrawal of the foreign funds would deprive the country of necessary gold reserves as was the case with Great Britain in 1931. What happened in the Belgian crisis was the effect upon Belgian industries and Belgian commerce of the fact that its price level measured in terms of gold was above that of the nations with which or in competition with which it did business abroad. It could only buy and not sell to advantage, the result being increasing industrial depression, unemployment and commercial stagnation, a form of economic pressure which no nation can resist if it is continued long enough. Belgium put up a brave fight but exactly what it was fighting for does not appear in the light of its industrial well-being.

*

Talk

"It might not be a bad thing if both the layman and the economist thought a little more, discussed in private a little more, and said in public a little less. Democracy is undoubtedly the only fair form of government, but democracy cannot function wisely or efficiently if it is continually presented with half-baked inferences and opinions."—Lloyds Bank Monthly Review.

*

Fleeing Capital

It is inevitable that, in spite of all that the governments concerned can do about the matter, capital in those countries still on gold but likely to go off the yellow metal over night will seek safety and ultimate profit in other countries. The United States at present is the haven of refuge for such capital and the inflow of gold from remaining members of the gold bloc into this country has been considerable and will increase as the strain on the bloc continues.

Incidentally this inflow of funds is exerting further pressure upon the investment situation in this country, beating down the price of high grade securities already pounded to death by the excess of unemployed funds in the banks. One significant fact about this movement is that visiting foreign capital is likely to stay here, for the promise of the future of business in the United States is better than that of any other great nation.

*

Gold Bonds

British holders of gold bonds of certain American corporations have been given legal assurance that the recent decision of the Supreme Court has made possible the collection of the equivalent of the old gold value of their holdings in present day dollars. It may be added: possible but not probable. It is an interesting question whether congressional legislation making the discharge of the original contract in these obligations impossible has the punch its congressional proponents thought it had.

*

Rails

In the past three years the American railways as a whole have been compelled to borrow approximately half a billion dollars to carry on. Last year they failed to earn their fixed charges by $32,000,000, following deficits of $6,000,000 in 1933 and $139,000,000 in 1932. Replenishment and reequipment, naturally, have suffered accordingly. There can be no doubt that many roads are grossly over-capitalized and that many are no longer worth what they once were and can never be brought back to a substantial earning power without drastic write downs. Nevertheless, it is well to remember that the losses thus noted are not much, if any, greater than those of many industrial concerns which have come back or are coming back into the zone of substantial profits. Common sense reorganization on the basis of present realities may do wonders for the roads and their security holders.

KEYSTONE

N. Y. S. E.

Charles R. Gay has been nominated for the presidency of the New York Stock Exchange, succeeding Richard Whitney

$4,880,000,000

Vice-president Garner signing the work relief bill, which carried a record-breaking appropriation. With this measure out of the way, the Administration hoped to speed up the legislative program

ACME

*

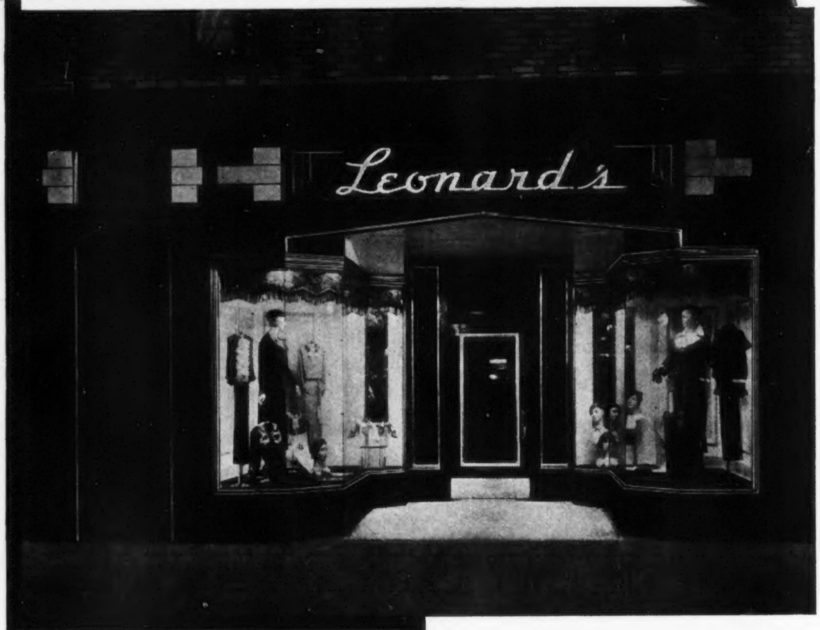
Soviets

The Russian government has made heavier purchases in the United States in the first quarter of the current year than in the same period of any year since 1932, though the total of the purchases at around $6,000,000 is far below the volume of 1930 and 1931 when Russian trade really meant something. It would be unfair to assume that the threat in Congress of the withdrawal of recognition from the government at Moscow has had anything to do with the increase, but it is safe to assume that if Russian business approached its old volume there would be prompt end to all such talk.

BEFORE: *Here is a store property in Newton, Iowa, as it looked before remodeling with a new Pittco Store Front. Before modernization, the store stood practically vacant for several years, producing no revenue to speak of.*

THAW YOUR "*FROZEN*" STORE PROPERTY ASSETS WITH *NEW*

PITTCO STORE FRONTS



FORECLOSED store properties which are unattractive, impossible to rent or sell in their present condition . . . antiquated store properties in the hands of your trust department . . . if you're looking for a way to thaw these "frozen" assets, to make them become profitable revenue-producers once again, we suggest that you investigate Pittco Store Fronts.

Pittco Store Fronts are capable of working wonders with out-of-date store space. Smart, modern, appealing to the eye, they entirely transform run-down properties. They make tenants easy to find, easy to keep. They attract the right buyers at the right prices if you wish to sell. And this ability of Pittco Fronts to improve and conserve revenue-producing power is not fanciful theory, but solid fact, proved time and again by actual test throughout the country.

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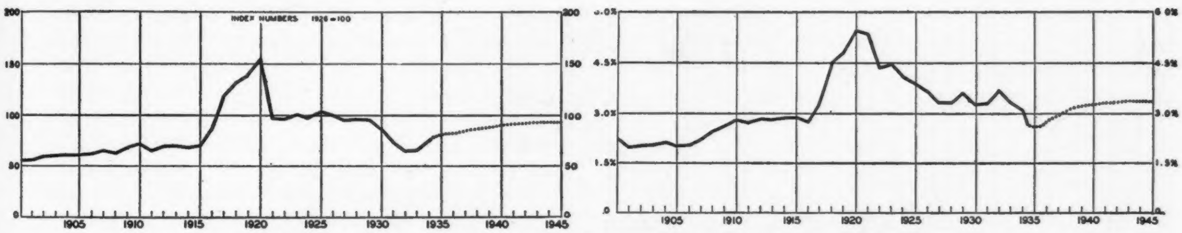
BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

MAY 1935

The Puzzle of Prices and Yields



The above charts are composites of answers to an inquiry addressed to economists on the future of prices (left) and Government bond yields (right)

IN these days of change, all business is solving riddles. The riddle of the future from the standpoint of general business is the matter of inflation, the future value of the dollar, especially in its relations to domestic price levels in the United States. The riddle of the future in banking is the same matter of possible inflation as affecting investments, particularly the yield on securities of a banking character. Upon a satisfactory answer to questions of the future stability of money, price levels and related business factors depends the return of industrial and commercial activity to a normal volume, while in matters of finance a solution of the problem of safety and yields is essential to the return of long term financing, upon which business recovery depends, and is necessary to the continued soundness, much more the prosperity, of every bank and other financial institution in the country.

The effort and responsibility required of bank management in present circumstances are colossal. Bank managers are working with or against intangible, unseen forces of tremendous power over which they can have no control. Any possible light which can be thrown upon the trend of these forces is of the utmost importance in the formation of bank policies.

Obviously, outright prediction of what is going to happen in the United States or the world generally in the course of the next five years or so is a dangerous undertaking, and one may suspect that the more any responsible authority knows about the situation the less inclined he may be to venture upon prophecy. Nevertheless the opinions of men who have given their lives to the study of economic and monetary problems have a value in this connection which merits careful consideration.

By
GEORGE E. ANDERSON

With a view to collating and coordinating the most authoritative opinions possible, BANKING has made a canvass of the leading economists of the country, widely scattered in their locations and viewpoints, and is now able to present the composite conclusions of over a hundred of these authorities.

Each of these economists was asked to indicate in chart form his opinion of the direction commodity prices are likely to take in the next few years and, in the same manner, indicate the prospective course of yields upon Government securities. The commodity price level chart he was asked to extend was based upon returns published by the Bureau of Labor Statistics in Washington. Bond yield estimates have been based upon statistics of Moody's Investors Service. The opinions given were held confidential as to individuals so that each authority might feel free to express his innermost convictions.

The general opinion of these economists is that the price level will rise—in other words, that a certain amount of inflation, or reflation if one prefers to call it that, is inevitable. The vote, expressed on a percentage basis, was 84 per cent predicting a rise, 4 per cent anticipating a continuation of the present level and 12 per cent expecting a fall in prices. When these general percentages are broken down, however, the diversity of opinion becomes somewhat picturesque. Fifteen per cent of the respondents expect that

the price level of 1926 will be reached by 1937; 21 per cent expect it to be reached by 1938 and 12 per cent by 1940. Two per cent expect that the level of 98 per cent of the 1926 figures will be reached by 1936, 2 per cent expect it by 1937 and 4 per cent by 1940. The level of 90 is anticipated by 2 per cent in the course of the next year; another 2 per cent expect it by 1939; 11 per cent expect it by 1940. Three per cent look for a level of 85 by 1940 while 13 per cent of the authorities expect a rise in prices but are uncertain as to the extent of the advance. Four per cent of them expect the present price level to be maintained indefinitely. Few of the correspondents gave a definite opinion as to trends beyond 1940 though most of them seemed to expect a stabilization of prices on a higher level by that time. Several pointed out that while monetary and credit conditions suggest higher prices, perhaps on a rapid scale, low buying power on the part of consumers, which is likely to improve very slowly, acts as a brake upon other forces.

Lower commodity prices are expected by 12 per cent of the economists expressing their opinions—a level of 75 per cent of the 1926 standard by 1938 anticipated by 3 per cent, a drop to 70 in the index level by 1940 expected by 7 per cent, a drop to 60 by 1937 anticipated by 1 per cent and a drop to 50 by 1937 expected by 1 per cent.

Naturally, even this breakdown of the returns fails to indicate the diversity of opinions on a subject so complicated, but several principles guiding the respondents are clearly evident. Most of the opinions are based on the assumption that Government expenditures and financing will continue along the lines laid down by the Administration in the budget messages but will go no further. A few of the opinions indicate a belief that once the present available bank and other credit is brought into use there may be no effective control for it and prices may rise indefinitely, two anticipators of inflation predicting a price level of 150 by 1940.

Quite a number expect this level by 1945. Most of these authorities anticipate an ultimate drop of prices to lower levels after the period of inflation has passed. Practically all others agree that changes in the near future, whatever they may be, will be followed by a period of stable prices. As opposed to the prospect of much higher prices several of the economists point out that, usually, periods of inflation or rising prices do not last over two years, since, by the time the rise has run for that period, resistance is developed which checks a further rise—a buyers' strike, for example. Most of those who expect a drop in prices look for this drop after a slight further rise.

HIGHER YIELDS EXPECTED

OPINIONS as to prospective yields on bonds, and presumably other investments, are more evenly divided, although the predominance of sentiment in point of numbers is substantial. Contrary to general opinion, the majority of the authorities look for lower prices for bonds and an improvement in earnings. Fifty-six per cent vote for higher yields, against 38 per cent who look for lower returns, while 6 per cent expect a continuation of the present level after a slight dip.

As against this preponderance in the number of opinions, however, the more emphatic opinions of the higher prices—lower yield school are an effective offset in calculating weighted averages.

Four per cent of the replies indicated that an average return of 3 per cent would be reached by 1938, 4 per cent expect such a rate by 1939, while 19 per cent expect it by 1940. The rates of 3.25 per cent and 3.5 per cent are expected by 1940 by each of two groups of 4 per cent of the respondents; 3 per cent of them expect a rate of 4.5 per cent by that year, while 9 per cent expect a general rise but are uncertain of its degree.

Of the 38 per cent of the replies expecting lower yields, 3 per cent expect a rate of 2.6 per cent by 1940 and by the same year 7 per cent expect 2.5 per cent, 1 per cent expect 2 per

Left, Owen D. Young, chairman of the board of the General Electric Company, photographed at a dinner in New York City. Right, S. R. Inch, president of the Electric Bond & Share Company, as he testified recently before the House Interstate Commerce Committee

KEYSTONE

HARRIS & EWING

cent, 4 per cent expect 1.75 per cent and 12 per cent look for lower rates but are uncertain of the degree of decline. One prediction indicates a rate of 0.5 per cent by 1945; another 1.4 per cent by 1939. Few of the replies are free of conditions. A large proportion of those looking for a rise do not expect it until after the current year. Many of them look for a steady drop until 1936 with a rise thereafter, while a few authorities expect a slight further dip and then maintenance of the present level.

In general a rise in yields is expected on the theory that a continuation of cheap money, with even cheaper money in the offing, will finally result in the overflow of funds from Government securities into industrial and other securities which will finally take the lead, thus easing up the demand for Governments, lowering their price and thus increasing their yield. Continued increase in the price of bonds, with the resultant lowering of the yield upon them, is anticipated by the minority among the authorities on the theory that the abundance of funds evidenced by increasing bank deposits with a prospect of further large increase will so keep ahead of the demands of business for credit that banks and investors generally will be forced to continue their present policy of bidding up the price of Government and other high grade securities.

Practically all the economists base their anticipations both as to commodity prices and investment yields upon certain assumptions as to Government policy. In most cases there seems to be a general assumption that the trends predicted will be followed on the basis of present conditions, i.e., that present Government policies represented by gold devaluation and an enlarged gold base for the currency, present and prospective spending and borrowing as laid down in the budget messages, and possibly more liberal credit and rediscount policies, will be carried out without material modification either way. In almost every case conservative opinions were conditioned upon "no radical inflation", "no further devaluation", "no further change in the dollar", etc.

Summed up, these economists expect a rise in commodity prices which, with some jerks and recessions, will reach between 92 and 93 per cent of the 1926 level by 1940 and will thereafter remain more or less steady. In other words, anticipated inflation is expected to be comparatively moderate with an advance in prices of about 15 per cent over present levels. In this connection, however, it should be pointed out that the latter are unduly high because of high prices for agricultural products due to the drought as well as to Government aid, which may not be applied indefinitely. The advance in prices anticipated, accordingly, is somewhat greater than present figures would indicate.

On the other hand, the anticipated improvement in bond yields is probably not so great as the figures indicate since it is generally thought that present yields are artificially low. No radical change in either commodity price levels or investment yields in the next few months is looked for.

At the left, Myron C. Taylor, chairman of the board of the United States Steel Corporation. Right, Charles M. Schwab, chairman of the board of the Bethlehem Steel Corporation, as he returned from Europe at the end of March

KEYSTONE PHOTOS

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TO bankers and trust men the question of possible inflation is not academic. They must answer it every day. The safety of other people's money is at stake. The dilemma of investors, in view of the general feeling that prices are to rise, is the subject of interesting comment by G. E. Putnam, the economist, in an article on **pages 64 and 65 of this issue.**

Bonds Above Call Price

THE bull market for highest grade bonds has raised a number of questions that require careful study by bankers, particularly those who are responsible for managing bank investment portfolios.

Not the least of these perplexities is what to do about premiums. Shall bonds selling above call prices be purchased and the premiums amortized or written off? What premium can safely be paid?

If the country is now entering an important refunding era, these questions are especially pertinent. Already we have seen several instances of high coupon bonds being replaced by issues bearing lower rates, and an important railroad has called a 4 per cent loan, paying off the principal and interest in cash. To what extent similar operations will be attempted is not clear at this time, but there would seem to be a definite possibility that many favorably situated companies will at least discuss the question of refunding or retiring eligible securities.

Thus the banker must bear in mind that the readjustment of corporate finances may go considerably further before a change in money market conditions erases the opportunity for such action. In buying bonds he will undoubtedly find it advisable to use greater caution than ever as he makes his selections. Market prices in themselves are often no accurate barometer of what a corporation's finance committee or board of directors have in mind with regard to outstanding issues. At the close of 1934 the market obviously had not guessed that Swift & Company was soon to announce an important refunding operation, while the call of the Norfolk & Western 4s was something of a surprise.

For many months it has been necessary for investors to pay high prices for quality, the highest, indeed, in a generation. This situation, as everyone knows, is the result of the Government's easy money policy, inaugurated early in the depression and since pursued vigorously, until the best grade short term securities were reduced to a money basis.

The demand for nearby maturities reflected the uncertainties of investors and their desire for liquidity and quick turnovers of capital funds. This attitude is symptomatic of all early periods of convalescence from economic ailments, but in the present instance it has been strengthened by the fact that the Government is doing an enormous amount of financing, mostly of a short term nature, and this at a time when the heavy industries, which normally supply a generous proportion of new bond issues, were still in the doldrums.

Lower grade bonds, including speculative and semi-speculative issues, have enjoyed periods of prosperity, permitting their disposal at prices that at least enabled holders to reduce losses, but many bonds of this description have tended to follow speculative rather than investment trends. Whether important investors feared inflation or not, they have found it generally expedient to stay with fixed income obligations, for investment opportunities have been largely limited to such securities.

Influenced by the law of supply and demand, gilt-edge bonds made their remarkable advance to levels that presented, in many instances, liberal margins over the prices at which they could be called. Ordinarily banks have preferred to avoid commitments in issues so situated, but the relentless pressure of funds and the need for income, however small, has made it necessary to consider whether such policies should be revised.

To some bankers, notably younger members of the profession, the premiums attained by large numbers of bonds presented a novel situation, for it had

Amortization Plan

IN connection with bond premiums, a feasible plan for proper amortization may well be considered. Following is a summary of the procedure adopted by one commercial bank of smaller size:

A complete schedule of bonds purchased at a premium is prepared, applicable to each six-month period. This schedule shows the book value of the bonds, the total premiums, the number of six-month periods over which the premiums are to be amortized to the nearest callable date or, in the case of uncallable bonds, to the maturity date. The entire premium on any single issue is written off so that the book value of all such holdings is at par. The total amount of premiums is then credited to the bond account and set up on the asset side under Bond Premium Account.

The schedule showing the items making up the total of premiums to be written off in any six-month period is of course a permanent record, from which can be ascertained at any time what amount approximately of the premium on any particular bond has been taken care of within any given period.

At the end of each six-month period, the Bond Premium Account is reduced by an amount not less than the total allocated to that particular period, and the Undivided Profits Account is charged accordingly. Since the deductions do not enter into the calculation for income tax purposes, there is no point in reckoning for amortization each coupon payment on bonds held at a premium in such a way as to apply each amount of write-off to the record covering each individual holding. Moreover, purchases and sales of bonds carrying a premium can be readily adjusted on the amortization schedule in any six-month period, so that the net amount of necessary write-downs at the close of the period can be taken care of by one entry.

been a long time since a comparable state of affairs existed. In buying high priced callable issues the banker is fully aware that he is running the risk of having his bonds retired, and he must decide whether the interim yield justifies the possible loss of a few points in the event of a call.

Some investment experts advocate that banks continue to steer away from high premiums, holding that no institution is justified in buying any bond on which it would stand to lose money, interest considered, if the issue was replaced or redeemed. Perhaps no hard and fast rule can be stated to govern such cases, but it is obvious that banks are hardly in a position where they can be careless about even comparatively minor losses and shrinkages.

Those who support this theory hold that investors, whether banks or individuals, should be willing to take a cut in income, getting out of or avoiding bonds that offer no yields to their next call dates, and into non-callables with lower coupons. Banks that followed this procedure a year or more ago saw their profits mount handsomely as a result of their switches, and if the easy money era continues and makes possible an impressive amount of refunding, the possibility of further appreciation in non-callable bonds would not appear to have been exhausted.

Many banks are picking their bonds closely at the present time. They are willing to buy slightly above call values as a hedge between short and long term maturities, justifying their program by the fact that immediate yields compare favorably with returns from short term investments of other descriptions. In addition, if the bonds are not called for at least a year, the income is greatly enhanced; if they are never called, the profit possibilities are obvious.

On the other hand, a bank that buys too far above the call price is "out on a limb" if the bond is called. Conditions being what they are at the present time, it is the opinion of some investment experts that banks should make a careful study of each individual situation and studiously avoid possibilities of loss. It is easy to surmise that a 4 per cent bond will not be called, but if corporate refunding is greatly extended, no one can say that coupons of even that amount will be immune.

It is true that a large proportion of the non-callable eligible bonds are to be found in the railroad list, which for various reasons—some of them very practical, others undoubtedly psychological—has lately suffered. Industrials, on the other hand, are mostly subject to retirement; many of them were issued during a period of high money rates and the companies protected themselves against just such a contingency as the present by inserting a call provision. Numerous industrial bonds went well above their retirement levels when the boom struck the market, some without much regard for earnings. It is interesting to note that the demand for these issues has tapered off and that obligations of utility operating companies have increased in popularity.

Many banks are today hedging their investments. They are wary of high premiums commanded by so many desirable issues, and they want to guard against a reaction. They are willing to buy some bonds, callable in the immediate future or at the moment, purely as short term investments to be held for yield; and there is always the possibility that the redemption or exchange will not be undertaken. Such holdings can be balanced with issues having more distant call dates—say, two, three, four or five years. If a bank does not hold sufficient short term securities it can often put funds into obligations callable at a near date, thus achieving a combination of near and long term investment.

Each bank's investment program must be carefully designed to meet its own needs and its own appraisal of both present and future conditions. During the period of heavy demand for short

At top: Ralph Kimball, Western Union official, and H. S. Kern, vice-president of Postal Telegraph, at a hearing of the Communications Commission. Lower picture: Mr. and Mrs. Henry Ford on a visit to the Berry Schools in Georgia, to which Mr. Ford has made contributions

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WIDE WORLD

term securities some institutions have been actuated consistently by the thought that in an advancing market, due to expanding deposits, there is no point in preferring early maturities because reinvestments inevitably have to be made at unsatisfactory returns. Banks taking this viewpoint have ignored the question of maturity for the sake of soundness in their purchases.

Some experts on bank portfolios maintain that an institution can find enough attractive issues selling below call prices, or without a present call feature, to reduce or eliminate the need for premium payments. Although bond market shoppers these days are apt to be discouraged if they are seeking only standardized, well advertised goods, they may find that painstaking search will uncover more profitable and equally secure purchases.

At top, F. A. Shick, vice-president and comptroller, Bruce Bromley, senior counsel, and S. W. Wakeman, vice-president, all of Bethlehem Steel, at the munitions hearing. The lower picture shows Donald Callahan (left), vice-president and director of the American Mining Congress, talking with James A. Emery, general counsel of the National Manufacturers Association, when the two were in Washington

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The Bond Portfolio

HUGH D. MACBAIN of Wood Struthers & Company, in a communication to BANKING, suggests a simplified method for keeping constantly in touch with the bonds in a bank's portfolio—

UNFORTUNATELY, there appears to be no purely scientific method of managing investment portfolios. A perfect formula for avoiding losses in bond accounts, moreover, probably never can be devised. Some bankers who have been singularly successful in keeping security losses at a minimum indicate that they have to some degree followed a philosophy similar to that of fire insurance underwriters.

Briefly, fire insurance companies accept liability on buildings in proportion to the hazards involved. Any company will accept more insurance on a so-called fireproof building than on properties more subject to fire, even though the latter carry higher premiums; and the underwriter will accept greater liability on protected dwellings in any area than on commercial properties.

This is so in spite of the fact that protected dwellings produce comparatively small premium income. The reason, of course, is that losses on dwellings, which may be compared to principal loss in bonds, are comparatively light. Therefore, in spite of the substantially lower premium income on dwellings insured—comparable to the lower return on gilt edged bonds—the net profit over a period of years is substantially above that derived from more hazardous risks carrying the higher premiums.

Another factor in successful insurance underwriting is that the companies at all times keep a close check on the per cent of liability they have in various classes of risks in any area. They do not accept new liability without first determining if an additional line of insurance will cause a top-heavy percentage in any one class of risk. Following this formula the astute bond buyer would not acquire new issues without having definitely in mind the exact percentage invested in one class of security in relation to total holdings.

It would seem that to "underwrite" an investment portfolio successfully, a bird's-eye compilation of some sort is essential. A table somewhat similar to the sample offered on page 83 enables one at a (CONTINUED ON PAGE 83)

Shifting from Bonds to Bank Loans

By W. A. LYON

Financial writer on the staff of the *New York Herald Tribune*

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THE search by banks and corporations for a means of improving their earning power has led them, in the last half year, to collaborate in exploring an entirely new field for bank credit. In trying to cut down on capital charges, a number of industrial organizations have turned to refundings. In casting about for new loans, more than a few banks have encountered these corporations bent on reducing the rate of interest paid on long term borrowed money. Between them, they have worked out an arrangement whereby the industrial concerns can call in their outstanding indebtedness with funds provided out of the more than ample supply which the banks, thanks to the easy money policy, now find at their disposal.

Up to now the transactions of this kind have not been numerous enough to constitute what in these days is called a movement. But figuring in the several examples which have already been entered in the records are some corporations which stand in the front rank of American industry. And the amount of loans and advances involved in 12 of the outstanding deals foots up to no less than $214,000,000. The whole story is not told, furthermore, by the operations that have come to light. The power of example and precedent is so strong that the usefulness and possible application of the principle of carrying through refundings with bank loans is being studied with care in many parts of the country.

It would appear at first that the refunding idea could be used only by those corporations able to call in their outstanding indebtedness immediately. But, formidable though this list is in length, the potentialities of refundings with bank loans may possibly not end there. Information in banking quarters is that certain corporations with bonds which cannot be called now are weighing the advisability of offering holders a new bond in exchange, plus a cash payment, the funds to be raised by bank borrowings.

As for the corporations which have already consummated or announced plans to refund with bank loans their debt not presently due, the group includes, among others, Gulf Oil, General Baking, Chrysler, Remington Arms, Standard Oil of New Jersey, Chicago District Electric Illuminating, American Tobacco and Socony-Vacuum. There are several other companies which have placed debentures with banks and others, with investment bankers acting as intermediaries, to raise funds for refundings. Among the latter are Dow Chemical, Sun Oil, Sun Pipe Line and Bangor Hydro-Electric.

Perhaps the foremost instance of refundings handled directly with the banks is that put through by the Standard Oil Company (New Jersey). This corporation is one that did not take advantage of the fashionableness of common stocks in the later 1920's to retire its funded debt with the proceeds of the sale of additional stock to shareholders. It had worked out a program of bond retirement of a certain yearly amount out of earnings. The savings in interest effected in this way were genuine, but the point came when a 5 per cent rate did not do full justice to the credit of a corporation of Standard of New Jersey's

Left, D. N. Nelson, vice-president of Sears Roebuck & Co., and, right, J. J. Harrington, of the American Newspaper Publishers' Association. Both pictures were made at the Senate's hearings on the N.R.A.

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strength and unblemished financial record.

Two courses were open. The company could retire the $90,000,000 of 5 per cent debentures in the time-hallowed way of selling publicly another issue of long term securities at a lower rate of interest. But this alternative had at least two unfavorable features. The compiling of the information required by the Securities and Exchange Commission would be, for a concern whose activities are so widespread and large, expensive and time consuming. Second, since the corporation was pushing forward so vigorously with its retirement of debt, it was really not long term money which was required.

What the banks did in this instance, therefore, was to help the corporation anticipate its bond redemption program. The company supplied out of its own cash balance enough money to redeem $8,000,000 of the debentures and to take care of the call premium. The banks provided $45,000,000 of short term loans, and $37,000,000 more came from a serial debenture issue, privately taken, all of which would be retired by February 1, 1941. The average cost of the bank loans and the debenture money was substantially below 5 per cent. An interest saving of even 1 per cent on the $90,000,000 issue would be $900,000 a year—no unimportant economy for even Standard Oil of New Jersey.

Explaining that prompt action was deemed advisable, Walter C. Teagle, president of the company, said: "A public offering, involving registration, unfortunately could not be considered, because the company is not in a position to submit to a certificate of independent audit. Such an audit covering subsidiaries operating in all parts of the world has been under way since May 1, 1934, but will not be completed before next Spring."

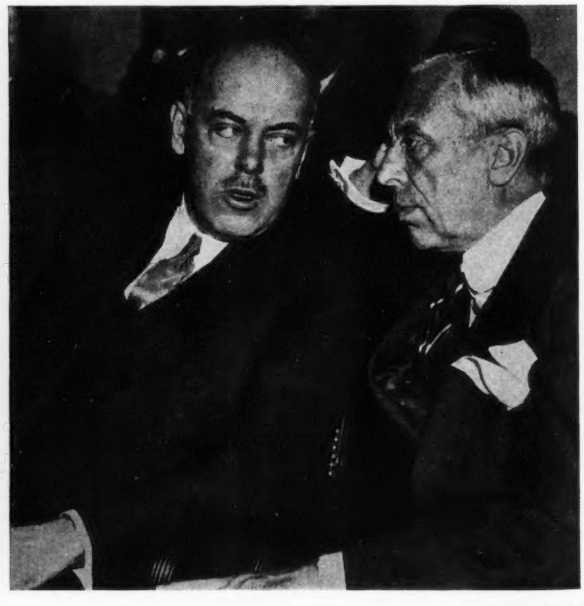
This operation is typical of the others. Another corporation had outstanding $30,000,000 of 6 per cent debentures of a subsidiary, which matured in 1940. Again, long term money was not wanted, for the company proposed to retire the issue at maturity anyhow. Instead, it took from its own treasury part of the funds necessary to retire the debentures and, for the rest, obtained $25,000,000 of straight bank loans from its depositary institutions, on one, two, three, four and five-year notes, distributed equally among the five maturities. The saving in interest will be $1,200,000 a year, or 28 cents a share on the company's stock.

A third corporation put up $12,000,000 of its own funds and borrowed $25,000,000 through bank loans and debentures to commute a lease costing $2,500,000 a year. The loans and debentures mature serially in from one to 12 years and bear interest at rates ranging from 1½ to 3½ per cent. The savings will average over $1,500,000 a year, exclusive of amortization of new debt, equal immediately to 30 cents a share and eventually to 50 cents a share. Interest and principal repayments combined amount to less than $2,500,000 a year. The lessor, in turn, called $35,000,000 of collateral trust 6½s it had outstanding.

A fourth corporation retired, on February 1, $3,916,000 of 10-year 5½ per cent debentures with the proceeds of 2, 2½ and 3 per cent notes maturing in 1935, 1936, 1937 and 1938. A fifth redeemed two bond issues totaling $28,197,000 and financed the transaction with $27,000,000 of bank loans, payable semi-annually at substantially reduced rates of interest. To take only one more example, a sixth corporation called $34,000,000 of 6s with the proceeds of 4 per cent notes, due February 1, 1937, which it sold to three banks.

While, for the most part, the practice has been limited to refunding operations, there have been a scattering few instances of the banks taking medium and long term obligations from a corporation to supply wholly new money. Yet, even though the volume of new money furnished has been inconsiderable in comparison with the refunding

Left to right: A. J. Brosseau, president of Mack Trucks and vice-president of the Automobile Manufacturers Association; Alvan Macauley, president of the Packard Motor Car Company and president of the Automobile Manufacturers Association; B. E. Hutchinson, treasurer of Chrysler Corporation; and Alfred P. Sloan jr, president of General Motors Corporation. They were attending hearings on the Wagner labor disputes bill



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money, the operations have had, to some degree, the effect of making sums available for new construction and expansion. For the amount of the interest savings has been added to the funds at the corporation's disposal for capital expenditures.

One generalization possible about the cooperation of banks and corporations in refundings is that the accommodations have been reserved for concerns of exemplary financial strength. This is not altogether attributable to the habitual precautions of the banks. A large portion of the advances so made will necessarily have to be carried in corporate balance sheets under current liabilities. Only those companies whose financial sturdiness is beyond impeachment would brave the risk of presenting to stockholders and the public a balance sheet with current liabilities suddenly swollen without at least a corresponding increase in current assets. Only those corporations confident of being able to conduct their operations without resort to bank credit would dare to exhaust their short term borrowing power by contracting bank loans to pay off long term debt.

KEYSTONE

Joseph P. Kennedy (at center of head of table), chairman of the Securities and Exchange Commission, with other commission members on the occasion of a visit to the New York Stock Exchange. Chairman Kennedy's earnest efforts to reopen the capital markets are beginning to show signs of success

One other thread which seems to run through the recent bank refunding deals is the restriction of them to corporations whose long term debt would be extinguished, in the normal course of events, in a reasonably small number of years. There has not been revealed any disposition on the part of the banks to give accommodation to a concern desiring to transfer a bond maturing 25, 30 or 40 years hence from the hands of the public to the banks for the mere sake of shaving 1 per cent or more off of the interest rate. It is known that some banks have been importuned by corporations to take over their really long term obligations and hold them to maturity at a lower interest. Some of the very banks which participated in the short to medium term loans to corporations for refunding purposes have steered clear of taking obligations of a distant maturity.

While realizing that the long term issues privately bought, unlike listed bonds, would present no problem of depreciation so long as default of interest was avoided, these banks have been impressed by the fact that the issues could not be disposed of until they were registered with the Securities and Exchange Commission. If the business of the corporation took a turn for the worse during the life of the privately placed long term issue, the reluctance of the corporation to apply for registration would be increased. But, even if the bond were registered, under those conditions, at a later date, sale of it would be difficult and would involve certain loss.

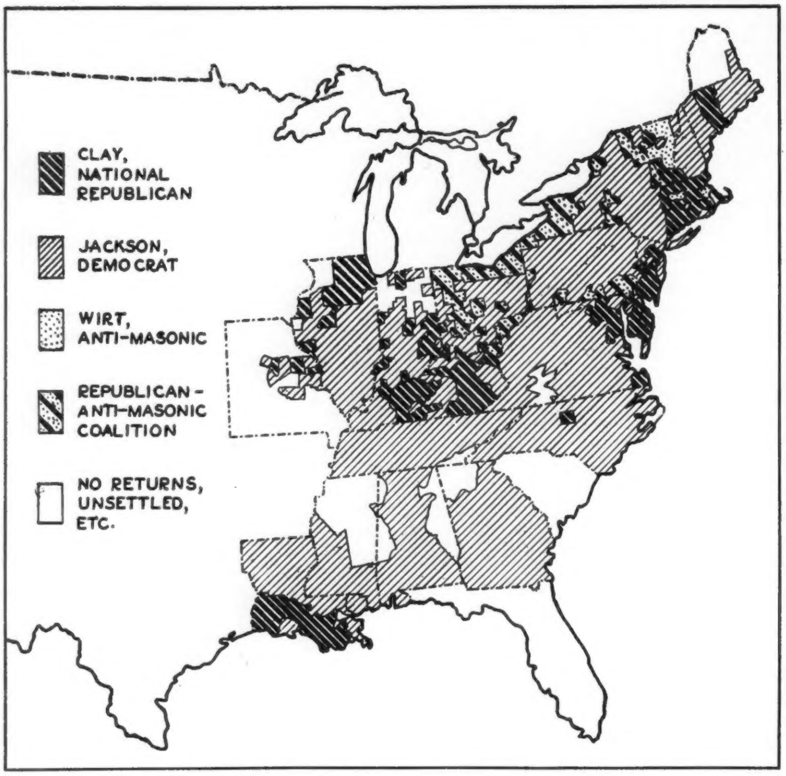
In helping corporations to refund bonds with bank loans and privately taken debentures, the banks have cast themselves in a new rôle. It is nothing new for banks to lend money to corporations for additions and improvements. They have been doing that for years and performing thereby a necessary function of the capital market. But they have made these advances pending the time when the investment market was ripe for their refunding, with the interval between the grant of the loan and its repayment through public sale of securities usually less than a year.

Obviously, the refundings which have been carried out recently constitute some departure from the old practices. The reasons therefor are traceable primarily to the fact that conditions in the investment market have experienced a change in the last few years. Public financing by established companies has been virtually at a standstill, owing in part to the circumstance that, with business activity at a low level, new funds were not needed and in part to the fact that the procedure for marketing securities has been altered. The Securities Act was passed, providing for the filing with the S.E.C. of a considerable quantity of data by the issuing corporation and holding the directors of the borrowing concern and the investment bankers liable for the facts as presented.

Rightly or wrongly, directors of some corporations have considered the liability provisions of the act too severe and have regarded the compiling of the information required of an issuer as too expensive and onerous. But the problems posed by the act were of scant importance to a good many of the leading corporations until the opportunity offered to undertake some refunding operations.

At this juncture the corporations found commercial banks with problems of their own. They discovered that the banks were under some compulsion to improve their earnings. With the demand for business credit slack and the volume of commercial loans continuing to shrink, the banks had been turning more and more to Government securities as earning assets. But the increasingly intensive easy money policy was tending to make the competition so keen for Government securities of the maturities which banks ordinarily buy that they did not seem able to compensate for the steadily declining yield by enlargement of the volume of their holdings. (CONTINUED ON PAGE 78)

A Turning Point in American Financial History



A political map of the United States in 1832

In 1832 the United States made a decision as to its banking system which affected greatly the nation's entire economic history

BY JOHN HANNA

Professor of law, Columbia University; member of the District of Columbia Bar

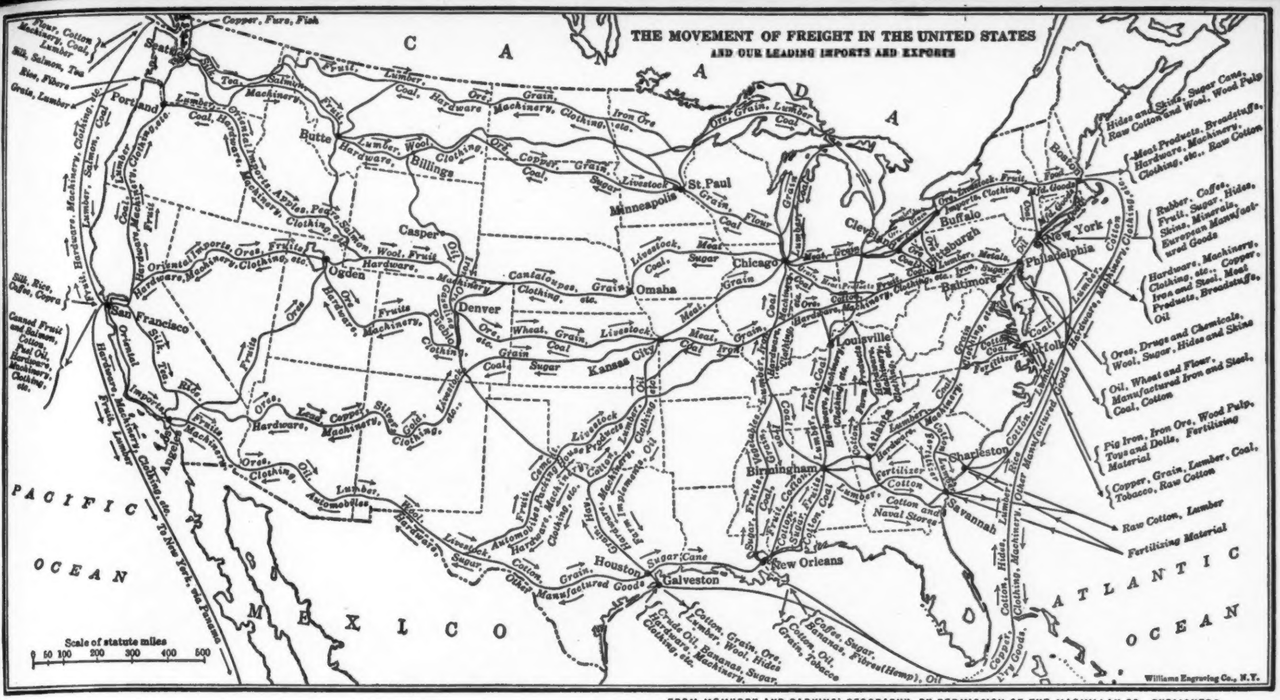
IF a stranger had been asked to guess the identity of Thomas Willing, as the latter started home to luncheon from the president's office at the First Bank of the United States in 1811, he would have said the sober figure was a prosperous merchant, a judge or a banker. Each surmise would have been right; Willing had been all three and a success in each.

A few years later, when Nicholas Biddle exhibited his elegant figure in the streets of Philadelphia, the visiting stranger might have called him, in Biblical language, a rich young ruler; but whether the affable aristocrat was an English diplomat, a poet after the manner of Lord Byron, or a popular lawyer, the appearance would have given little clue. One of the last guesses would have been that the handsome young man was the president and virtual dictator of the Second Bank of the United States and a financier whose shrewdness rivaled that of the Rothschilds.

The Second Bank of the United States began business in April 1817. Its organization was much like the First Bank, except that it had a capital of $35,000,000 instead of $10,000,000 and had 26 branches, at a time when the noble horse was the fastest moving object between two geographical points. William Jones was the first president. The Bank was almost wrecked by excesses of its first two years, particularly at the Baltimore branch. Langdon Cheves succeeded Jones and, by rigorous retrenchment and scrupulous honesty, restored the Bank to respectability. By the end of 1822, when the safety of the Bank was no longer in question, complaints began to circulate that Cheves was too conservative. Cheves was defeated for reelection in 1823 and Nicholas Biddle, a director since 1819, took his place.

Biddle belonged to a distinguished Philadelphia family, was a Princeton graduate and had been a youthful diplomat under Monroe in London and Armstrong in Paris. He was a wit, a man of literary talent, a sophisticated gentleman, a clever and resourceful financier, and, for all his aristocratic connections, he had a liberal appreciation of the qualities and abilities among the pioneer leaders in the newer states. Biddle was 37 years of age when he became president of the Bank, but there was no immaturity in his comparative youth. His conciliatory manner, versatile tact, industrious habits, keen intuitions and tenacious will were fully developed, and from the moment of his election he was the accepted dictator of the Bank's policies.

If Biddle's reputation could depend upon his first six years with the Bank of the United States, he would rank among the half dozen leading financiers in United States history. His skill in effecting both foreign and domestic exchange



FROM MCMURRY AND PARKINS' GEOGRAPHY. BY PERMISSION OF THE MACMILLAN CO., PUBLISHERS

An economic map of the United States in 1935

transactions, in anticipating Government revenues and the payment of Government expenses, and in adjusting discount policies to suit local exchange situations exhibited the confident skill of a brilliant technician. By 1829 the Bank's fine achievements had all but obscured the memory of its early faults. Its relations with the state banks had reached a comparatively agreeable phase. Political criticism flared up now and then but in the few matters that came before Congress for decision the Bank's friends in the House and Senate were in an overwhelming majority.

The Bank and its many branches kept clear of politics with unusual consistency. As its president, Biddle was of course in constant touch with the leading men of the day. He was friendly with both Webster and Clay, who were both at various times borrowers from the Bank and who were both employed by the Bank on legal business. Webster, as United States Senator from Massachusetts, saw no impropriety in writing to Biddle reminding him that his retainer had not been refreshed as usual.

The evidence from all sources is conclusive that Biddle was firmly against mixing politics and banking. He tried to have all important groups represented among the directors of a branch, but he refused to be drawn into any practice by which the Bank would be bound to take any certain number of directors from any party. As Biddle pointed out, the hazard of equal division of parties was that it enforced upon the Bank incompetent or infirm persons in order to adjust the numerical balance of directors. His correspondence shows that Biddle was time after time approached with political arguments in respect to his policies and that he always resisted, and compelled his subordinates to resist, any invitation to participate in political controversy. Biddle once remarked, "Dean Swift said, you know, that money is neither Whig nor Tory, and we say with equal truth that the Bank is neither a Jackson man nor an Adams man; it is only a bank."

Not only was it Biddle's practice to refrain from active connection with politics but his correspondence shows his constant aversion to making loans for any but legitimate business reasons. Biddle himself was not a borrower from the Bank and his influence was strongly against retaining as directors, either in Philadelphia or in the branches, men who were inclined to use Bank resources for loans to themselves or others on any but a sound banking basis.

This was the situation when Andrew Jackson became President of the United States in 1829. The subsequent bitterness between Jackson and Biddle makes it hard to believe what nevertheless seems to be a fact—that Biddle in this election was a supporter of Jackson rather than Adams. Biddle had no particular reason to fear Jackson in 1829, whatever he may have heard about Jackson's prejudice against all banks and his suspicion that the United States Bank, or at least some of its branches, had worked against his election. Biddle knew that the Bank had not taken part in the opposition to Jackson and he was confident that he could convince Jackson of this impartiality. Biddle knew too that the Bank was really in sound condition and that this fact could be demonstrated to the satisfaction of Congress and presumably also to Jackson. Moreover, Biddle may have felt, which was probably true, that he had the sort of personality more likely to be distrusted at close range by John Quincy Adams than by Andrew Jackson.

In the light of after-events it is a curious and somewhat pathetic fact that not any of the charges made against the Bank in the fight between 1829 and 1832 for a recharter were true at the time they were made, and yet the Bank subsequently was guilty of substantially every discreditable practice alleged against it. Had it continued the policies which guided it from 1823 to 1829 its ultimate recharter would almost certainly have been accomplished, even if the Jackson supporters had been initially successful and had persisted in their opposition.

Jackson, in his messages to Congress in 1829, 1830 and 1831, indicated his doubt of the Bank's constitutionality and in general his opposition to it as organized at that time, at least. But

From a cartoon of 1837, the original of which is in the New York Public Library. The figure in the center, dressed as a woman and wearing a knife, is Jackson, who is resting his hand on Van Buren's shoulder

even in his first message his language was not particularly militant and his messages became progressively milder. The Bank had a clear majority among the Jackson supporters in Congress and its friends dominated Jackson's cabinet. It also had powerful support among Jackson's most intimate advisers. During the first years of Jackson's administration the Bank had an opportunity to demonstrate its usefulness as a fiscal agent of the Government. This fact was not only appreciated to its full extent by Secretary of the Treasury McLane, but also by Jackson himself.

The charter of the Second Bank would expire in 1836. It was only natural that its officers, friends and clients should desire to have its fate determined at as early a date as possible. Negotiations for the renewal of the Bank's charter were actively under way as early as 1830. For the ultimate destruction of the Bank responsibility must be shared among Biddle, Clay, Webster and Jackson. The blame is mostly Biddle's, although to Clay is due more than to any other statesman of the first rank the chaos in American banking and finance which continued almost without interruption between the Government's fight with the Second Bank and the establishment of the Federal Reserve System in 1913.

Had Clay supported the renewal of the charter of the First Bank, its life would almost certainly have been extended from 1811 to 1831. The third renewal would therefore have come before Congress in 1827 or 1828 while John Quincy Adams was President. There can be little doubt that the Bank would have been rechartered for a period which would have extended its life beyond the Jackson and Van Buren administrations. While the Bank always would have been subject to some political assaults, it would have established itself, after 50 years, as a permanent factor in our financial structure much like the Bank of England. It might have contributed materially to a more orderly development of American institutions.

In one sense, of course, Jackson is to blame for the destruction of the Second Bank, because, had he been in favor of it, its charter would easily have been accomplished. Webster's responsibility is less but still considerable, because, had Webster used his influence to keep the Bank out of the presidential campaign of 1832, which he might have done, the Bank would likely have been continued. The reason why Biddle is most to blame is because the politicians, Jackson, Webster, Clay and the rest, were fixed factors in a situation which Biddle was obliged to evaluate in all its aspects. Biddle made his decision and his judgment was wrong. There is every reason to suppose he would have won had his decision been different.

The whole struggle is an interesting psychological illustration of the fact that a man's second judgment may well be worse than his first. His second judgment may be based upon no new facts, but may be marked by an inclusion of emotional elements absent when the first conclusion was formulated. Biddle had every reason to know Jackson's prejudices, his flaming and reckless courage when an issue was defined in terms of personal combat, and his remarkable popular strength. Biddle, of course, had no easy task, because in addition to Jackson's predilections Biddle had to meet the opposition of Amos Kendall and Hill of the "Kitchen Cabinet," Attorney General Taney and Van Buren. Besides, this a number of disreputable political hangers-on, one of whom at least had endeavored to de-

fraud the Bank, were busy circulating scandal about the institution and its officers.

On the other hand, Biddle was an absolute insider with the officials of the Treasury Department up to the Secretary himself. He was certain that the fiscal officers of the Government would present the Bank to the President in the most sympathetic way possible. Probably every member of the cabinet, except Taney, was in favor of the Bank's recharter. Van Buren was being sent as Minister to England. Through William B. Lewis, himself a member of the "Kitchen Cabinet" and one of Jackson's most intimate friends, Biddle was in a position to discover and to a certain extent neutralize the activities of Kendall and Hill. All that Biddle needed to do was to save Jackson's face and to consent to a few charter amendments in order to change the President's mild opposition to a tepid acquiescence.

It is interesting to note that Clay appreciated all this and set it out to Biddle with perfect clarity in 1830. Clay at that time was a private citizen of Kentucky and was writing to Biddle, not as a candidate for office, but as a friend of the Bank and as a man of political insight and experience. He assured Biddle that it would be impossible to obtain a recharter of the Bank against Jackson's opposition because there would not be a sufficient majority in Congress to over-ride a presidential veto. Clay went on to say that a number of Jackson men wanted to make the Bank a political issue; that if a recharter bill was presented and defeated before the election of 1832 the Bank question would undoubtedly be a plank in the political platform; that Jackson's reelection was likely; that if he were reelected on an anti-bank platform the Bank's ruin was certain.

However, if there should be no application for a recharter until after the election and no reference to it as a political issue, the Jackson men who were friends of the Bank could persuade him to consent to recharter, especially in order that Jackson's second administration might have the advantages of the Bank's support in some of the Government's fiscal policies. The same advice came to Biddle from McLane, Secretary of the Treasury, from Lewis and others. Moreover, this advice coincided with Biddle's own opinion.

A year later Clay was nominated for President by the National Republicans. This party was in search of an issue. With surprising obtuseness, considering how easy it always is to arouse popular prejudices against any financial institution, these Whig politicians thought that they had a winning issue in support of the Bank. They not only wanted to support it themselves, but they were determined to drive Jackson into an anti-bank attitude. To make Jackson's attitude perfectly clear, they were set upon bringing the Bank matter up in Congress before election with the expectation and hope that Jackson would veto the bill. Then they would have an issue and the moral and financial support of the Bank, and with that they expected to defeat Jackson for reelection and to put Clay in the White House.

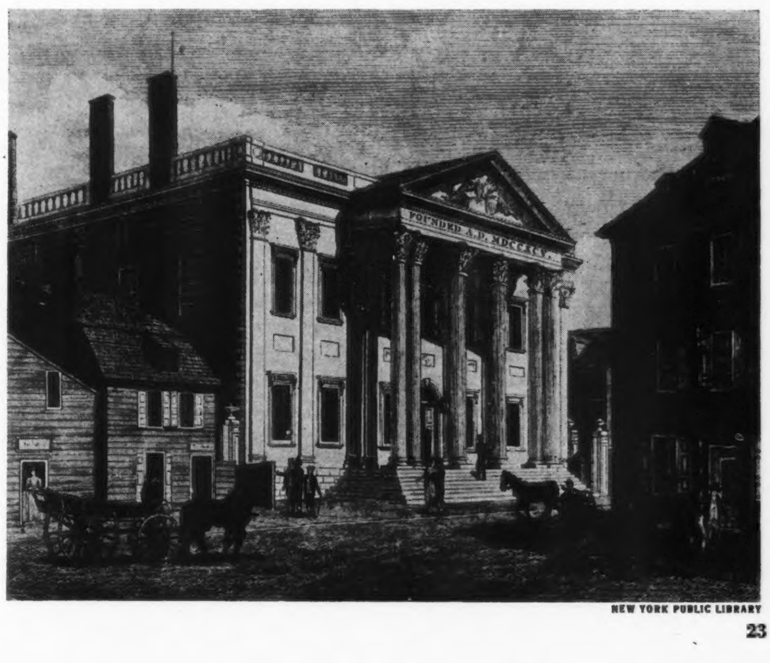
Clay forgot all about his previous advice to Biddle, and with the help of Webster and other Whigs began to urge Biddle to apply at once for a recharter. Biddle hesitated and Clay's friends renewed their pressure, not without insinuations as to possible revenge if Biddle showed no appreciation of what the Bank's supporters were doing in its behalf. There was little actual secrecy in all this political maneuvring. Finally McLane, after a conference with Jackson and with Jackson's consent, went to Biddle and promised that if the Bank matter were not brought up until after the election Jackson and the Democrats, if successful, would favor recharter with certain amendments.

Biddle considered the amendments with some of his directors and decided that their provisions were reasonable and would not unduly interfere with the continuation of the Bank's regular activities. Whatever Biddle might have thought about Jackson's deficiencies as a statesman, he must have known that he could rely upon Jackson's word and McLane's assurances. From that moment Biddle should have returned to his own steady policy of keeping the Bank out of the political arena. Instead, he continued his conversations with the Whigs, and at last Senator Dallas of Pennsylvania, at Biddle's request, introduced apologetically in January 1832 the Bank Recharter Bill.

Biddle established personal headquarters in Washington, employed lobbyists, printed (CONTINUED ON PAGE 66)

THE BANK IN 1842

After a trip to America Charles Dickens wrote of "a handsome building of white marble which had a mournful, ghost-like aspect dreary to behold. I attributed this to the sombre influence of the night, and on rising in the morning looked out again, expecting to see its steps and portico thronged with groups of people passing in and out. The door was still tight shut, however; the same cold cheerless air prevailed, and the building looked as if the marble statue of Don Guzman could alone have any business to transact within its gloomy walls. I hastened to inquire its name and purpose, and then my surprise vanished. It was the tomb of many fortunes, the great catacomb of investment— the memorable United States Bank."



NEW YORK PUBLIC LIBRARY

$17,500,000,000 Deposits In State Banks

BY ROBERT M. HANES

President of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina

THE figures on which this and subsequent articles in this series are based were gathered by the Committee on State Bank Research of the State Bank Division of the American Bankers Association, of which the author is chairman, from reports furnished through the generous cooperation of the state bank supervisors in the various states.

This committee has assembled figures on resources and liabilities of state banks at the close of each year since 1930, and now for the first time makes public the facts revealed by these compilations, together with numerous additional figures gathered for the first time for 1934.

IMPROVEMENT in the condition of state banks in almost every respect during 1934 is shown by statistics recently assembled.

Ever since 1921 the number of state banks in the United States has been declining. (The term "state banks" as used in this article and those which follow it in the series includes all state-chartered banks except mutual savings banks.) Between 1931 and 1934 the decline was rapid. At the end of 1931 there were 13,225 state banks, but during 1932 this number was decreased by 1,313, and by the end of 1933 an additional 1,425 state banks had disappeared from the scene, bringing the total down to 10,487. Figures for December 31, 1934, show that the downward trend has not yet ended, but the decline last year was only 412, the smallest in 12 years. This is an event of first importance and deserving of more than passing notice.

Even more significant was the ending of the decline of deposits in state banks which had been going on since the collapse of the stock market boom in 1929. In recent years for which figures are available the drop has been particularly abrupt. Total deposits in state banks declined from $20,395,762,000 on December 31, 1931, to $15,424,823,000 on December 31, 1933. The record for 1934 shows a recovery to $17,508,766,000 at the year-end. It is particularly gratifying to note the expansion of deposits, since it was their decline which made necessary the liquidation of investments, the calling of loans, and all the other phenomena which go under the name of "deflation" and have brought banks so much criticism in recent years. It is now plain that this was only the effort of the banks to place themselves in the possession of enough liquid assets to meet the growing demands of depositors for the return of a part of the money which had been placed on deposit.

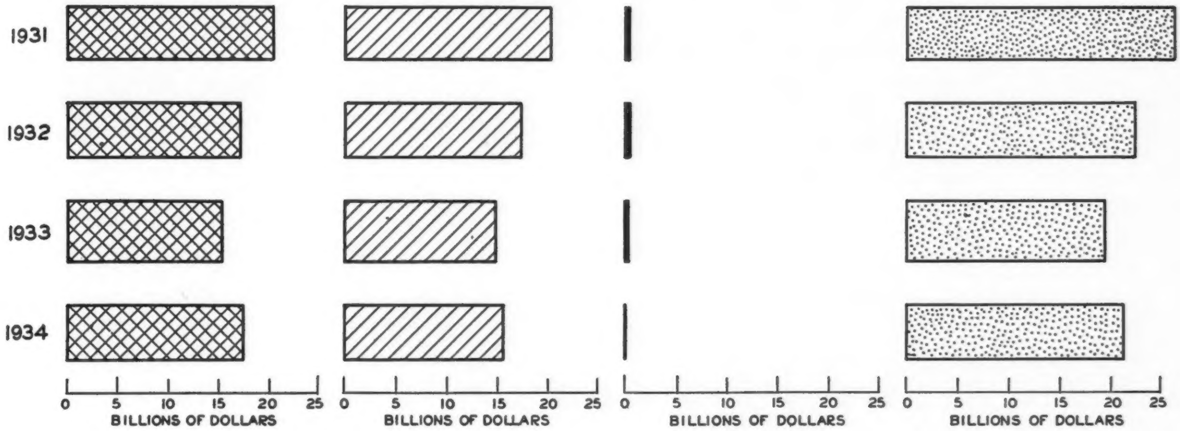
That this is true is borne out by the movement of invested funds of state banks, which has paralleled that of deposits. These invested funds (loans and discounts plus investments) for state banks, dropped from $20,291,320,000, at the end of 1931, to $14,915,773,000 at the end of 1933. By December 31, 1934, however, they had recovered to $15,769,510,000. All of this gain is accounted for by the increase in investments during 1934, the expansion amounting to approximately $1,300,000,000. As for loans and discounts, they registered a slight drop again in 1934, but the rate of decline was much smaller than in previous years, which in itself is progress. Whereas the drop in loans and discounts amounted to approximately $3,300,000,000 in 1932, and to approximately $1,300,000,000 in 1933, it was less than $500,000,000 in 1934. The reason for the slight decline in 1934 will be suggested later in this article.

In another respect the balance sheet figures for December 31, 1934, were especially impressive. Bills payable and rediscounts of the state banks, which at the end of 1932 had reached a depression high of $669,709,000, had dropped by the close of last year to the low figure of $82,101,000. One must search the records as far back as 1917 to find bills payable and rediscounts of state banks at a lower figure. Moreover, it is reasonable to expect a further reduction of such borrowings during the current year.

These are only a few of the interesting facts revealed by a study of the data collected by the Committee on State Bank Research. Subsequent articles will contain many more. For example, there will be presented in the June issue a tabulation of the main balance sheet items of the state banks in each state as of December 31, 1934, compared with the figures at the end of 1933. This will throw into relief the differences in banking developments in 1934 in different sections of the country. It will show that, in spite of the decline in total

Statistical Position of State Banks

(December 31 in each year)



	DEPOSITS	INVESTED FUNDS (Loans and discounts plus investments)	BILLS PAYABLE	TOTAL RESOURCES
1931	$20,395,762,000	$20,291,320,000	$590,651,000	$26,640,433,000
1932	17,037,239,000	17,231,175,000	669,709,000	22,427,935,000
1933	15,424,823,000	14,915,773,000	368,393,000	19,754,014,000
1934	17,508,766,000	15,769,510,000	82,101,000	21,615,247,000

loans and investments last year, there were at least nine states in which the banks increased their loans and investments over the end of 1933, some of them by substantial amounts. It will reveal the states in which the banks managed to increase their surplus funds during a year in which profits were not large. It will show those states whose experience was contrary to the prevailing trends. In short, the tabulation will make possible numerous interesting comparisons of banking experience in various states with those of states similarly situated.

In another article there will be presented earnings figures for state banks covering slightly more than half the states. Such figures are not collected by all states. This will be the first time that such data have been compiled and published together, arranged so as to permit of comparison. The aggregate figures show that in the states which furnished earnings reports there were satisfactory operating profits in the year 1934, as a general rule, but that the losses written off against loans (all of which were probably made in previous years) were almost 20 per cent larger in the aggregate than the operating profits. Here is obviously one of the explanations of the fact that loans and discounts of state banks did not expand in 1934. With such a loss experience on previous loans, banks have naturally been justifiably cautious about making new loans unless they could feel reasonably certain that similar write-offs would not be necessary eventually on them. It is a fact so well known as to need no emphasis that the number of good loans available in 1934 was not only distinctly below normal, but practically reached the vanishing point. These two conditions obviously were mainly responsible for the further decline of loans and discounts which took place last year.

EARNINGS FIGURES

THE earnings figures will also give such information as the proportion of gross earnings provided by interest and by service charges; the amount paid out as interest on deposits, and as salaries and wages. It will also show earnings and expenses computed in dollars per hundred dollars of invested funds. Thus comparison of the earnings records of the banks in various states will be made possible.

It is planned to conclude the series with a compilation of certain significant ratios computed for each state from the resource and liability figures. These ratios will provide indexes of the extent to which the banks of various states have placed their deposits in loans and discounts (as contrasted with investments), and the proportion of cash resources which banks in each state keep on hand to meet the demands of their depositors. The intention is to include in the final article the comments of and conclusions drawn by the committee under whose supervision the figures were compiled.

The facts, figures and conclusions of this series of articles will be highly valuable to every state bank. They will provide standards against which every bank can measure its own performance, both as to earnings and as to investment and reserve policies, to determine whether it is above or below the average for all banks in its state, and if so, why. For these reasons it is hoped that the series will be carefully followed by all practical bankers.

Volume Statistics for Personnel

BY J. W. MILLER

Comparative Statistics on Commercial Tellers Division

(Continued monthly)

	January	*February*	*March*	*April*	*May*
NUMBER OF TELLERS....	9	9	8½	8½	8
CHECKS CASHED					
AMOUNT.............	910,102	706,662	797,625	695,900	701,575
Peak day............	76,606	72,136	71,542	68,961	67,619
Daily average........	36,404	32,121	31,905	27,836	28,063
Daily average per teller	4,044	3,569	3,754	3,275	3,508
NUMBER............	24,573	20,548	22,950	21,950	21,862
Peak day............	1,870	1,818	1,802	1,692	1,612
Daily average........	982	934	918	878	874
Daily average per teller	109	104	108	103	109
CASH DEPOSITED					
AMOUNT.............	1,740,965	1,449,294	1,642,150	1,540,650	1,534,800
Peak day............	119,907	113,826	112,982	108,567	107,966
Daily average........	69,638	65,877	65,686	61,626	61,392
Daily average per teller	7,737	7,320	7,728	7,250	7,674
DEPOSITS					
NUMBER............	25,725	21,472	23,975	22,800	23,000
Peak day............	1,630	1,545	1,539	1,449	1,456
Daily average........	1,029	976	959	912	920
Daily average per teller	114	109	113	107	115

Comparative Statistics on Commercial Bookkeeping Department

(Continued monthly)

	January	*February*	*March*	*April*	*May*
NUMBER OF BOOKKEEPERS....	15	15	14	14	13
Total Ledger Sheets Extended.	128,250	107,250	125,650	116,200	113,425
Average per Bookkeeper per Working Day............	342	325	359	332	349
TOTAL DEBITS..............	238,875	196,680	228,200	212,450	209,625
Average per Bookkeeper per Working Day............	637	596	652	607	645
TOTAL CREDITS.............	39,750	33,330	38,500	36,050	35,100
Average per Bookkeeper per Working Day............	106	101	110	103	108

Comparative Statistics on Transit Department

Month	*Total Number of Outgoing Items Per Month*	*Ave. Number of Outgoing Items Per Working Day*	*Ave. Number of Outgoing Items Per Employee Per Working Day*	*Number of Employees*
January......	190,862	8,298	1,383	6
February.....	159,933	6,953	1,159	6
March.......	179,764	6,657	1,268	5¼
April........	180,658	6,948	1,323	5¼
May.........	176,608	7,064	1,378	5⅛
June.........	176,284	6,780	1,323	5⅛
July.........	150,694	6,028	1,205	5
August.......	147,298	5,455	1,091	5
September....	145,196	5,807	1,161	5
October......	132,750	5,310	1,264	4⅕
November....	132,416	5,757	1,396	4⅛
December.....	139,350	5,360	1,340	4

ALTHOUGH the large metropolitan banks have made use of internal operating statistics for years in controlling their expenses and arranging their routine, this is not generally true of the medium sized banks located outside the big business centers. After a bank grows to a size where it is impossible for the managing head to be a part of all the activity in the institution, some substitute must be found which will keep him informed of the volume of various transactions handled by his personnel. Departmental operating statistics will fill this gap. They are the means through which the officer in charge of operations may keep himself informed of the trend of activities in the different departments. The information derived from such data is invaluable in the control of departmental expenses.

MAN-POWER

ONE of the biggest items of inefficiency and waste in the class of banks referred to above is the unscientific handling of man-power. Generally speaking, this laxity is most prevalent in banks having between five and 50 millions of dollars in deposits. The increase and the decrease of the number of employees in the different departments is based on opinions and not on actual facts as it should be where such information can be obtained. For example, we will say the head teller goes to the proper officer with a request that his department be given additional help. Unless the officer is presented with figures showing the trend of the volume of business handled by this department, his reply to the head teller cannot be an intelligent one.

Or we will look at this from another angle. We will say that the officer in charge of operations is receiving periodically statistics on the volume of business handled by a certain department and the figures reveal a gradual falling off in activity. Perhaps the head of some other department has made a request for more help and his departmental data prove that his request is in order. It is possible that shifting an employee between these two departments will eliminate the necessity of increasing the

Control

"THERE is no intention to convey the impression that one can disregard the human element altogether and depend entirely upon cold figures in dealing with the personnel. But it is through the use of these cold figures that one is able to determine the trend of the efficiency in an organization. They form the basis for intelligent action"

bank's personnel. Of course, this is a very rough and theoretical example and in actual practice the problem would be more involved, but it brings out the point.

When you speak of departmental statistics to the average bank official outside the bigger banks, he immediately visualizes a great amount of time being consumed by high-salaried employees in gathering such data. Generally speaking, however, this is far from the truth. Most statistics on departmental volume activity can be accumulated by an ordinary clerk and in a very short space of time. For example, one may want to know the number of checks cashed and deposits received by the commercial tellers. It is not necessary to count each individual item. By using an adding machine scale running from one to one hundred and by placing it along side the listings on the batch sheets, thousands of items can be counted in a few minutes' time. Large quantities of items may be counted with reasonable accuracy by weighing them after determining the approximate number of pieces in one pound.

CONTROL TABLES

THE accompanying tables show a few simple statements which very clearly reveal the trend of volume activity in the departments which they represent. A study of these will show how easy it is to control the number of employees in the different departments when you know the volume of transactions they are handling. For illustration, consider the report of the transit department which shows a gradual decrease in the volume of items handled and a proportionate decrease in the number of people employed. The statements from the other departments reveal similar facts. The fractions represent part-time employees who divide their time between several departments.

There is no intention to convey the impression that one can disregard the human element altogether and depend entirely on cold figures in dealing with the personnel. But it is through the use of these cold figures that one is able to determine the trend of the efficiency in an organization. They form the basis for intelligent action.

Robbery in Five Minutes

By M. H. HILL

President of the First National Bank, Smith Center, Kansas

IT was a few minutes before three o'clock. There were six employees, including officers, and six customers in the bank and we were in the midst of the afternoon's business.

I was seated at my desk in the officers' section waiting on one of the customers.

"This is a holdup. Stand up!" came a brusque command. I looked up and saw three strangers just inside the door, one of whom wore a mask and carried a machine gun. The two others were not masked and carried automatics.

"Get back, everybody get back there!" was the next command. I stood up and stepped back from my desk.

Before moving away from the counter one of the employees tripped a silent alarm which rang in two offices outside our bank. One bandit, with machine gun poised for instant use, quickly established himself on the steps leading to the mezzanine in the front of the bank; this position gave him a sweeping view of the whole bank floor, as well as command of the nefarious business at hand.

A second bandit, carrying a small black bag, came through the gate to the officers' section. He glanced hurriedly into the two front private offices and then went back to the cage division.

"Which one is the cash drawer?" he snapped out. No one answered. Putting his automatic into a shoulder holster, he proceeded to scoop up the currency in the cash drawers at both the first and second windows, as well as the currency on the counter.

By this time the telephones began to ring repeatedly.

"What's that?" excitedly called one of the bandits.

"It's the telephone," answered one of the bank force. Employees in the offices that had been warned by our alarm were telephoning to make inquiry. Undoubtedly, the ringing of the telephones caused the bandits some apprehension.

The telephone rang again.

"Is that an alarm?" called the masked bandit. The other bandit in the bank lobby also called out the same question.

The bandit behind the counter, as he closed his bag containing the currency, asked, "Can anyone open that back there?", referring to the vault. No one answered.

The telephone rang again.

"That's the signal. Come on, let's get going," one of the bandits called from the lobby.

Then the one back of the counter said, "Let's take plenty of 'em with us," poking his gun into the back of the cashier.

During this time the unmasked bandit in the lobby had lined up the customers against the opposite wall.

The gunmen then herded the six officers and employees together and marched us out of the bank in such a manner as to shield themselves. The customers were left inside.

Outdoors a small crowd had gathered. One of the onlookers queried, "What's this, a holdup?" Another replied, "No, I guess they're just practicing for the Little Theater." Even one of the bandits smiled.

An officer of the other bank was on the walk opposite our bank, with a revolver.

"Don't start anything," called one of the bandits and another threateningly pressed his gun against the head of the cashier. It would have been folly for the man across the street or for anyone to have fired at the bandits, who, armed with a machine gun and two other guns, much in evidence, were in entire command of the situation.

The six of us were marched to the south side of the bank building where the bandits had parked a car, which we afterward learned had been stolen a short time before in a nearby town.

The two women employees of the bank were ordered into the back seat of the car, beside one of the bandits. The

Federal agents on the pistol range in the basement of the Department of Justice building in Washington

HARRIS & EWING

The motor car and the open road have added to the difficulty of finding a solution to the problem of bank robbery

CUSHING

other two bandits sat in the front seat and ordered the rest of us to stand on the running boards.

The whole affair probably took less than five minutes.

The bandit driver of the car was somewhat confused, apparently, as to how to find the through highway about a mile north of town. He inquired. We answered truthfully.

About two and a half miles out of town, the bandit driver slowed down, let the four of us off the running boards and drove hurriedly on, still keeping the two women in the back seat of the car as hostages.

"You girls are just as safe with us as if you were at home. Sorry you will have to walk back," one of the bandits advised the women. Nonchalantly, he offered the girls cigarettes.

The women were released about six miles from town.

By this time the sheriff was in pursuit, but with their head-start the holdup men had made a clean getaway.

Fortunately, none of us was harmed in any way. The loss to the bank was approximately $2,000, fully covered by insurance. The check from the surety company for the full amount of the loss was received in our office five days after the robbery.

My first thought during the experience was to study the robbers so that they could be identified later if opportunity were given. My second thought was that I wanted everyone, employees and customers alike, to obey instructions of the bandits so far as possible. It would have been no less than suicide to have resisted men so well armed.

After going through that experience I wonder, naturally, how such bank holdups can be prevented.

To keep down the amount of loot bank robbers might obtain, I firmly believe that banks should carry as little cash as possible not under time lock; the less that is exposed, the less profitable such banditry will be.

Bank officers and employees should coolly study the robbers so as to make possible later identification, when and if the bandits are apprehended. It is well to observe height, color of hair and eyes, complexion, probable weight, ears, noses, chins and any scars or other peculiarities. Mental notation should also be made of profiles of the men, for Government and state officers possess many photographs of criminals to aid identification.

To give alarms quickly, there should be foot bars or knee buttons for operating silent alarms. These should be so installed that they can be operated when officers or employees are seated at desks, as well as from teller windows. It is obviously impossible for any one to operate a signal with his hands during a holdup.

I believe that victims should obey instructions of the bandits so far as possible; they should talk no more than absolutely necessary.

Bankers should carry only a reasonable amount of cash on their persons, and diamonds or other jewelry should be insured. Ordinarily, I understand, bank robbers do not take personal property of officers and employees, but, in our case, most of us were relieved of our billfolds and jewelry.

Bullet proof glass, tear gas and other devices may be decidedly worth while, but I feel emphatically that the real answer is efficient national, state and city police units which can capture and punish criminals. This would be the best way to make unpopular the sport of robbing banks.

The danger to the great number of country banks is apparent, and only effective police measures, backed by stringent laws and the best protective devices in the banks themselves can off-set bank banditry.

The Drive on Bank Criminals

IN conducting the Government's campaign against the nation's known bank robbers, estimated to number 5,000, Department of Justice agents can operate under a number of Federal statutes.

Their most potent legal weapon is the law enacted about a year ago making the robbery of a national or Federal Reserve member bank a Federal offense, a valuable protection which the proposed Banking Act of 1935 would extend to all insured institutions. Under the existing statute the Bureau of Investigation of the Department of Justice had inquired into bank robberies up to early April, and had convicted 50 persons.

The protective department of the American Bankers Association reports in the April Bulletin that on March 1 there were 129 burglars, bandits, sneak thieves, forgers, etc., awaiting trial. Arrests made since September 1 last year totaled 137, and during the same period 128 convictions were secured.

The Ultra-Modern Budget

By JOSEPH S. CREWS

The author is in the investment counsel department of Charles D. Barney & Company, New York

COMMON-SENSE and not his knowledge of military tactics enabled Napoleon to understand that an army traveled on its stomach. If our great army of unemployed is to be moved back into productive enterprise by the methods of the past it must be through the use of the financial food called capital. If this shift is to be accomplished under individual capitalism, the job is that of the capitalists—if under some other system, the state may act instead of the individual. Nevertheless, the necessity for capital will not be eliminated in that event.

As a profit and loss economy, the fountainhead of the hybrid capitalistic system reposes in finance as distinct from business. The financial part of this dual system derives the power to inject life into business from that extremely sensitive form of wealth broadly known as money. Consequently, as a measure of wealth and because a large part of our wealth is in this form, the matter of money is fundamental. Whether or not this should be such a vital factor is of no concern at the moment. The point to bear in mind is that it is actually the case. Despite its importance, there is no intention in this article to discuss the irrepressible conflict between business and finance or the fact that, after almost a century and a half of supremacy of the latter, a great deal of evidence is available to support the belief that the trend is in a direction which may eventually lead to a reversal of this position.

Critics who object to the monetary and fiscal course followed by the Administration are confronted with the statement that they have nothing to offer as a substitute. The truth is that adoption of the "easy way" out automatically makes taboo suggestions which would mean a reversion to the "hard way". Having taken an initial move in the direction of the soft money path, defenders of the course are forced to utilize the same method which another New Dealer attempted to make use of some 2,000 years ago.

"Well you know," said Socrates to Thrasymachus, "that if you ask a person what numbers make up twelve, taking care to prohibit him from answering twice six, or three times four, or six times two, 'for this sort of nonsense will not do for me'—then obviously if that is your way of putting the question, no one can answer you"—and that is today the difficulty which confronts one who wishes to offer constructive suggestions.

BUDGETS; GOLD

BROADLY speaking, the money question hinges around two primary points. First, a balanced budget or, to speak with more precision, budget equilibrium, and, second, the matter of a fixed gold content for the currency with an automatic gold standard. With public expenditures absorbing, as they now do in many countries, a quarter or more of the national income, the economic and social significance of the budget in a country which fosters a private capitalistic economy can hardly be over-emphasized. Moreover, the expanding use of public funds for non-fiscal purposes has added meaning to Gladstone's observation that "Budgets are not merely affairs of arithmetic but in a thousand ways go to the root of prosperity of individuals, the relation of classes and the strength of kingdoms".

Since January 1931 fiscal fashions in the United States have dictated that the budget remain unbalanced. In each fiscal year of the past five the gaps between income and outgo have widened and the uncovered parts of the body of public expenditures have increased. It is not intended to suggest that this country, despite the length, size and type of its deficit, is wearing an original creation. In fact, application of the remark made some years ago, that "this year budgets are being worn unbalanced", would still enable many of the countries of the world to appear well dressed.

This epidemic of unbalanced budgets is not just an incident in the general worldwide disorder. Instead it is a direct and immediate result of the depression. At the same time it is a rather clear-cut cause of much of the acute confusion which exists in the financial part of our economic system today. No uncertainty exists as to the immediate cause of most budget deficits. Public expenditures are by their nature much more rigid than public revenues. Most tax systems, on the other hand, are poorly adapted to withstand a severe drop in the level of business activity. When, during a depression, this condition is further emphasized by the adoption on an extensive scale of the theory of public expenditures for social purposes while there is continued heavy dependence on the purely fiscal principle of taxation, the matter of an unbalanced budget is likely to become one of the most baffling that a government has to face.

The two requisites of any plan for budget balancing are, first, that it be workable and, second, that it be substantially in accord with the principles of the economic system under which it is to function. Under pure capitalism the only course which could conform with these two requirements would be to let what have been termed the "natural" forces do their work. In other words, permit bankruptcies, compromises and readjustments to eliminate the unwieldy debts and unbalances built up during the preceding period of prosperity.

Admittedly such a course cannot be carried out today. Misguided humanitarians, along with labor, insisting on the efficacy of high wages, capitalists forgetting that capitalism is both a profit and loss economy, and "liberal" thinkers who want to retain capitalism but insist on tampering with it, forgetting that the principal trouble with

SOVFOTO

THE PLAN COMES FIRST

Under the pressure of rigid economic plans, Russia, for example, has had to increase her budgeted expenditures from time to time. The increase has been met largely through the popular internal loans. Under the Russian system capitalism's "private risk" is incorporated in the budget.

The picture at the left was made at the Hammer and Sickle Steel Works in Moscow, where a signboard shows the progress of various departments in subscriptions to a government loan.

According to their speed in reaching the goal, the departments are represented by turtles, donkeys, horsemen, airships and other symbols.

capitalism is continued interference, all make this impossible. In short, balancing the budget by cutting expenditures alone is not practical because it is inconsistent with the expenditure of public funds for social purposes.

Between the extremes of the expansionist and contractionist theories of budget balancing, there lies a middle ground which conforms closely with the type of capitalism that is now being followed. This middle course, as the name might imply, is based on the principle of "equality of sacrifice". In addition to being consistent with the program of attempting to maintain the principal (but not the interest) of the existing debt structure, this plan has the added advantage of not being entirely experimental. It was adopted by Australia in 1931 and the results to date have been highly satisfactory. In fact, Australia, whose fiscal affairs at that time were in a highly precarious state, has, considering their condition, probably made greater progress in rehabilitating her finances than any other major nation of the world.

The fact that public expenditures, as previously pointed out, are far more rigid than revenues does not preclude some reduction in ordinary disbursements during a depression even though the saving may be more than offset by an increase in expenditures for unemployment relief and other social purposes. This was recognized in fact at least by the Democratic platform in 1932, which called for a reduction of 25 per cent in Government expenses. For the benefit of those who contend that conditions in March 1933 were so different from those in 1932 as to make the carrying out of such a pledge impossible, let it be remembered that President Roosevelt in his economy message of March 1933 not only voiced an appeal for such a program but that Congress later enacted the legislation necessary for effecting the reduction. The fact that most of these expenses have already been or are in the process of being restored does not mean that from an economic standpoint they could not be saved.

A PROGRAM

STATED briefly, a program of budget balancing on the principle of "equality of sacrifice" would involve five major steps:

1. There should be a substantial reduction in the Government's ordinary expenditures. This reduction should be actual and not by transfer of ordinary disbursements to the emergency category.

2. Emergency Government agencies operating as a part of the "spending program" should cease to make further commitments.

3. Repayments to Government lending agencies should be used to retire the national debt.

4. Unemployment should be provided for through direct relief with the funds derived from a tax on the incomes of all employed persons, the proceeds to be used exclusively for relief purposes.

5. Having provided a fairly stable tax base for unemployment relief funds, intelligent use should be made of taxation to accomplish the social purposes now being attempted by monetary manipulation, crop restrictions, price fixing and other dubious methods.

Obviously, such a program could not be carried out without considerable sacrifice and, in many cases, suffering on the part of those affected by the proposal. Moreover, putting such a program into effect would not bring about a quick recovery. It would, along with action for definite stabilization of the currency, lay the basis upon which to build a sound and sustained recovery. At the same time it would eliminate the possibility of further impairment of the Government's credit and thus insure 130,000,000 people against having to face hardship and suffering far greater than now confronts the 20,000,000 people on relief rolls.

Realistically considered, a reversal in the current course would in the end be far more humane than its continuance. The policy of caring for millions of unemployed through the issuance of "red ink" bonds, if continued, must eventually claim its tens of millions through destruction of the national credit, the cruelest and most wicked punishment a government can inflict upon its people.

Despite a recognition of the fact that history is made largely by panaceas, balancing of the budget is not advocated as a cure for the country's ills but merely as a step toward insuring the stable monetary base which is indispensable to a lasting recovery. In fact, until definite action is taken to settle the two points which together constitute the vital money question, the whole effort to restore recovery must be characterized as a program of hope in opposition to economic experience.

U. & U.

Union terminal, Chicago, owned by Chicago Union Station Company

The Month

Among the important developments has been the increased momentum of the movement toward large scale refunding

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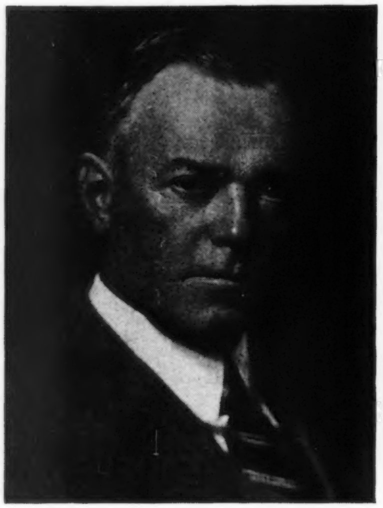
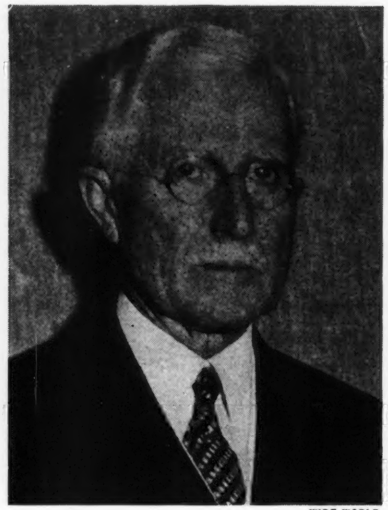


Walter C. Teagle, president of the Standard Oil Company (New Jersey)



WIDE WORLD

George M. Verity, chairman of the board, American Rolling Mill Company

U. & U.

Charles H. Swift, chairman of the board, Swift & Company

●

The first refunding by an operating railroad company in the current movement

The Accord in Banking Opinion

A FULL and unrestricted discussion of the policies and the attitude of the American Bankers Association in regard to the Banking Act of 1935, now pending before Congress, made up a large part of the deliberations of the Executive Council at Augusta, Georgia, April 15, 16 and 17. The result was a definite consensus among the members approving the position taken on this legislation by the executive officers of the Association and the special committee designated to study the bill and formulate recommendations in regard to it.

During the course of these discussions the various details of the bill were brought to the attention of the Council and unusually frank expressions from many points of view and representative of all types of bankers were presented. The unanimous conclusion was reached that the responsible representatives of the Association had found the best common ground possible under existing conditions.

Briefly, it was pointed out that the position taken by the representatives of the Association was as follows:

(1) Approval of Title I of the Banking Bill of 1935, providing for a permanent Federal deposit plan which would limit assessments on member banks to a known amount or ratio each year and restrict insurance to $5,000 on a single account;

(2) Recommendations for the rewriting of Title II along lines, as presented by the American Bankers Association (pages 36 and 37 of the April issue of BANKING), which would strengthen the independence of the Federal Reserve Board and preserve its freedom from political control, with a clear understanding that Title II would be opposed vigorously in its present form;

(3) Approval in substance of Title III, which deals for the most part with technical, detailed and non-controversial amendments to the various Federal banking statutes.

In opening the session, President R. S. Hecht stated that although some bankers had favored opposing Title II without compromise, practical conditions at Washington would make such a course both unwise and ineffective. The better course, he said, "is to make it clear that we are ready to help in molding and guiding whatever legislation is to be enacted, so that it will be conceived along lines of sound banking and public policy."

He added: "We have made it clear that we are unalterably opposed to anything like partisan or political domination of banking and that we would favor Title II only if the changes we have proposed and which we believe essential to proper independence of the Federal Reserve Board are carried out."

He then urged the Council members to express themselves without reservation in order to guide the officers in continuing to obtain satisfactory legislation, and threw the session open for this purpose. Full advantage of this opportunity was taken by a number of members representative of various types of banking and sections of the country.

It was notable that they entered the discussion not in a controversial or antagonistic attitude, but manifestly in an earnest desire to analyze and understand fully the position taken by the Association officers on a number of points, and add their own views in arriving at a sound, working program representative of all aspects of banking and its diversified interests.

It was noted also that in every instance where a specific question or issue was raised the officers were able to give a constructive answer, indicating either that their position already taken covered the suggestions made, or else giving reasons why it would be impracticable to go any further along the lines suggested.

Summed up, those who spoke showed a distinct tendency to analyze very closely the question whether the Association was taking a sufficiently strong stand against tendencies at Washington to extend Government and political domination over banking through creating, in effect, a centralized and politically controlled version of the Federal Reserve System.

Throughout, the dominating note of those participating was the desire to develop the widest possible understanding of the subject and the broadest possible teamwork to aid the representatives of the Association in bringing about the best possible results. Also, outside the formal proceedings, Federal legislation affecting banking was the outstanding topic of conversation and interchange of views.

The final outcome, of both official and unofficial discussions, was complete approval by the Council, in formal action at the closing session, of the position that had been taken by the Association's representatives. This was expressed by Richard S. Hawes, President of the Association in 1919, who said:

"For over twenty years I have attended these Council meetings. In my recollection I do not know, except probably in connection with the 1913 incident of the Federal Reserve, when more valuable and constructive work has been done by a committee than that which is being done by the one which is working on the proposed Banking Act of 1935. It therefore occurs to me that this Council should express its gratitude for the fine efforts of these gentlemen and say to them that we are behind them in their efforts and that we approve their recommendations as they have been presented."

Put to vote as a formal motion this sentiment was unanimously approved by the Council.

The temper of the sessions was again alluded to by President Hecht in his closing remarks at the Family Dinner the evening of April 17, which brought the meeting to a close when he said:

"Perhaps at no time have we bankers faced a more crucial period than we face today. At no time has it been more important that we seek together for a ground of common understanding. Your officers have gone to Washington to try to represent the broadest possible welfare of many different kinds of bankers. We did not seek to serve the ends of any particular group. We sought the best thing that could be found on behalf of all bankers as devoted citizens of our country. You have given us advice and criticism in a kindly and understanding way. You have strengthened our spirit to press forward in your service."

The Condition of BUSINESS

FAVORABLE changes outnumbered the unfavorable in the business picture during the latter half of March and the first half of April, though such changes can scarcely be said to have modified materially the fundamental situation.

Developments of the month that may be classed as favorable include: (1) a distinct improvement in residential building; (2) improvement in industrial production, particularly in automobiles; (3) a continuance of brisk retail trade in the rural areas; (4) a cessation of the declining tendency in prices that had been a feature of the February recession in business; (5) a spectacular increase in the rate of security refunding, under the leadership of the United States Treasury; and (6), on the foreign front, the orderly devaluation of the Belgian currency.

A FEW OFFSETS Against these changes there have been certain offsets, the principal ones being (1) a pronounced failure on the part of retail business in the urban centers to keep pace with its performance in the rural areas; (2) severe dust-storms over a large part of the Middle and South West, with accompanying threats of a renewal of last year's drought; (3) a disturbingly rapid advance in retail food prices; and (4) renewed business unsettlement as a result of fresh silver legislation.

In the banking situation, as distinct from that of business generally, the principal tendencies revealed included a sudden expansion in time deposits at a juncture when demand deposits were showing a recession; a drop of substantial proportion in loans against securities, and the rapid growth of a new tendency in corporate financing whereby bank loans are being employed to replace long term loans and even preferred stocks.

The rise in time deposits among the reporting member banks in the leading cities amounted, between March 6 and April 10, to $28,000,000, and brought this item to the highest level in many months. Presumably the change reflects the steady decline in the rates obtainable on high grade investments, which rates tend to make the rates paid by many banks look more and more attractive. The fact that no interest is now paid on demand deposits undoubtedly has helped to stimulate the movement.

REFUNDING OPERATIONS The decline in bank loans backed by securities is explained largely by the Government's March financing operations. In preparation for this refunding the dealers purchased large amounts of the old issues, and arranged to have the banks "carry" the securities. Once the refinancing was over, however, the dealers disposed of the securities and thus reduced their loans. The drop for the period of five weeks was $156,000,000, with $132,000,000 of it accounted for in the New York District.

As to the drift of corporations "into the banks", this recent tendency is discussed at length in an article elsewhere in the current issue of BANKING. Suffice it to say that the new "fad"—if it may be so designated—is for corporations with some cash and larger amounts of bank credit, to call in their bonds or preferred stock, which may bear interest at anywhere from 4 to 8 per cent, and replace the securities with bank borrowing.

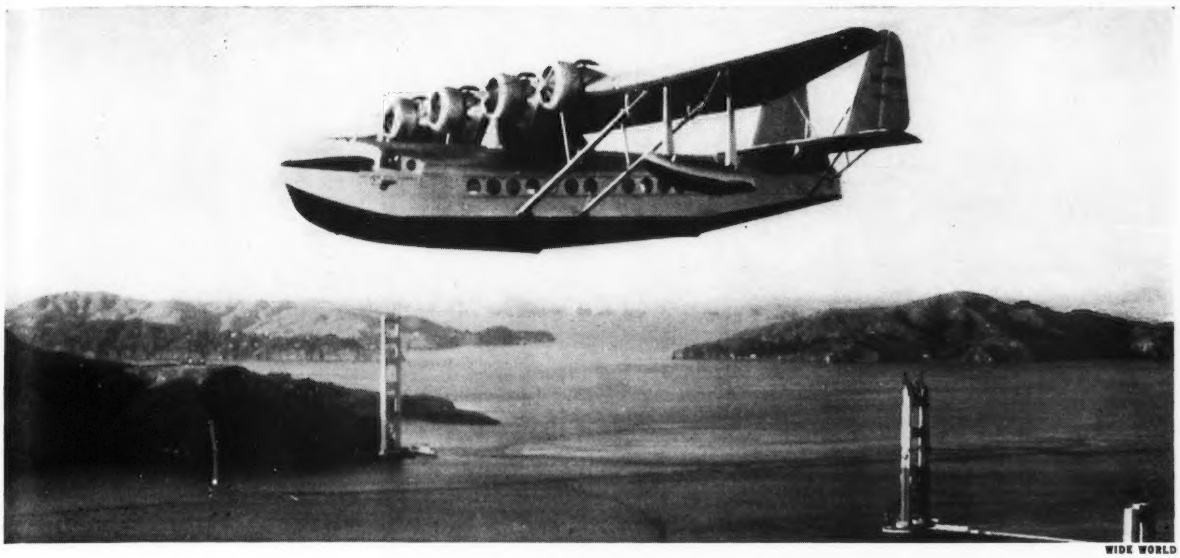
IMPORTANT BORROWERS Some of the largest companies have improved their current earning possibilities through the reduction of fixed charges in this manner, the list including Standard Oil of New Jersey, Chrysler, American Tobacco, Gulf Oil, Sun Oil, General Baking, Socony-Vacuum and Remington Arms. Not only has this arrangement been a happy one from the standpoint of the corporations (though, like all short term financing, it is attended by the usual risk that the borrower will miss a favorable refunding market) but it has proved a profitable development from the standpoint of the banks, who have, of course, been hard put to find an outlet for their surplus funds.

Reverting to the favorable changes in the general business picture, it probably can be said that the building improvement was the most encouraging single development. If we are to have any genuine recovery—a recovery that embraces the heavy industries as well as the so-called consumption goods industries—it is almost unanimously agreed that there must be a stimulation of building. Indeed, if building does not get under way soon on a fairly heavy scale, it seems probable that the Government will lay especial emphasis on this phase of its work relief program. The Relief Administrator, Mr. Hopkins, has let it be known that he believes upward of a billion a year could profitably be expended by the Government in the field of low cost housing, or slum clearance. Even such an anti-New Dealer as Professor Sprague of Harvard feels that public spending on housing is the best artificial method of recovery.

It is probable, however, that both Mr. Hopkins and Professor Sprague, as well as most other observers, would agree that a recrudescence of building without Government stimulation would not only do the work quite as well, but probably more effectively. Hence, any marked improvement in private building is naturally to be regarded as encouraging.

March awards for residential building, according to a report released by the F. W. Dodge Corporation on April 16, almost doubled the volume of February, and also ran ahead of March a year ago by nearly 15 per cent. Needless to say, compared with the boom years, or even years of normal activity, the award of $32,000,000 in contracts during March was absurdly low. Thus, as recently as March 1931 the total was $101,000,000, while in the real estate boom year 1928 it reached $275,000,000.

Nevertheless, to the extent that it proves to represent a genuine tendency, the March 1935, showing must be marked down as clearly hopeful. For the first quarter of 1935, incidentally, residential building contracts awarded amounted to $297,000,000 against $461,000,000, in the corresponding period of 1934.


WIDE WORLD

PIONEER

The Pan American Clipper, flying from Alameda, California, to Honolulu, in record time, inaugurated a trans-Pacific air commerce route. The picture shows the big plane over the Golden Gate on her way west

Automobile production continued to feature the industrial situation during April. At the end of the quarter production of cars and trucks in the United States and Canada, amounting to 1,110,000, was 48 per cent better than a year ago, and no evidence of cessation was in sight.

The highest single week's production in 1934 was that of April 27, when it reached 99,336 units. By March 23 this year the 100,000-a-week mark had been crossed, and by April 13 weekly output had reached 109,537 and was still rising. General Motors, Ford and Chrysler have accounted for about 78 per cent of the production to date this year.

In certain respects it must be conceded that 1935's automobile statistics will be a little misleading. In the first place, the industry swung into production at least a month earlier than usual, with the result that most of the plants were in quantity production by the end of January; in the second place, a new stimulus is to be expected from the fact that the Automobile Manufacturers Association has voted to hold its annual show in November and get to work on the 1936 models by October 1.

Retail purchasing continues to indicate that the agricultural regions are doing better than the urban areas. Take, for example, the sales by department stores in March. In dollar value they were off 8 per cent as compared with a year ago, but when considered by districts losses ranged all the way from 16 per cent in Boston, and 13 per cent in New York and Philadelphia, to as little as 4 per cent in St. Louis, Atlanta, Minneapolis, Kansas City and Dallas.

The Chicago Reserve district alone showed a nominal increase of 1 per cent. Dollar sales are mentioned specifically here, because while dollar sales declined the index of the Federal Reserve Board showed department store sales higher than last year, the figures being 80 for March 1935 and 77 for March 1934. As between the two, perhaps the index is a slightly better guide to the true state of affairs than dollar sales, for the index is adjusted to the change in Easter from April 1, where it fell last year, to April 21 this year.

While the modest upturn of prices recently has been hailed as an encouraging sign, it is not without its drawbacks. One of these is the abrupt rise in retail food prices, and particularly meat prices. Retail prices of cereals, according to reports compiled by the Department of Labor in 51 cities throughout the country, have risen from a low of 112 in February 1933 to 151 in March of this year; dairy products have risen from 88 to 113; and meat prices have soared from 100 to 150. The rise in meat prices has been particularly sensational in 1935, carrying this index since the first of the year from 120 to 150. Some evidence is reported that these advances in food prices have been having a retarding effect on retail sales.

FINANCIAL EVENTS

On the financial side, as distinct from banking and business, the outstanding event of recent weeks has been the heavy refunding operations in the bond market.

The announcement by the Securities Exchange Commission on March 31 of the registration of an issue of $73,000,000 for the Southern California Edison Company brought the total of such registrations up to $281,000,000 for that month and made it far and away the largest month since the Securities Committee was established. The corporate financing to date, however, has been almost entirely for purposes of refinancing. In other words, it has been dictated by a desire to take advantage of the easy money market conditions prevailing to replace high coupon obligations with low coupon issues. There has been little or no evidence of a demand for new capital.

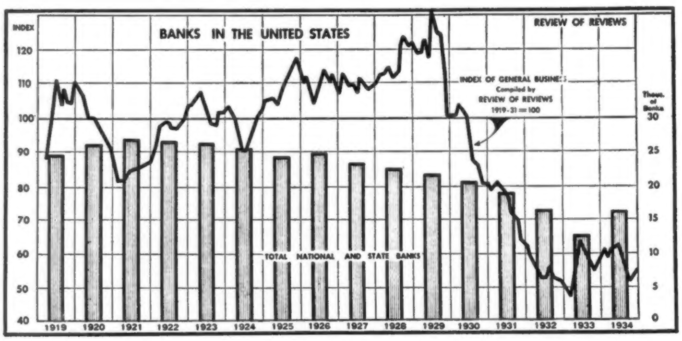
On the other hand, the fact that companies will apply for refunding issues on such a scale as the present is a clear indication that the S.E.C. has done a good job in modification of the registration requirements. What this means is that when and if the time comes that corporations are prepared to undertake new capital expenditures they will not be deterred by fear of the Securities Act.

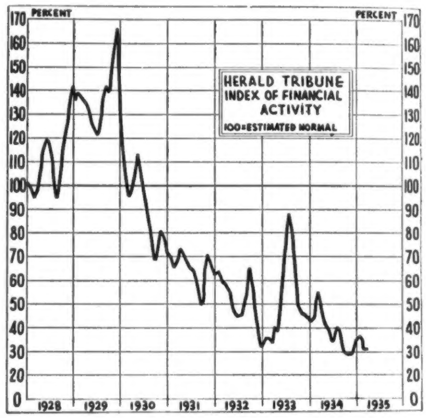
Some Indexes

A Few of the Many Attempts To Measure Business

SWEIGERT IN THE SAN FRANCISCO CHRONICLE

The Siamese Twins





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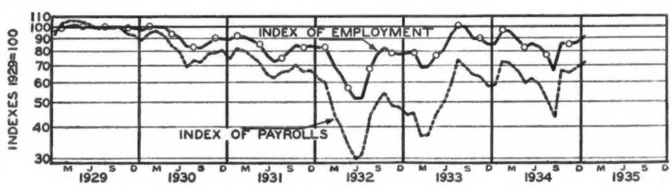
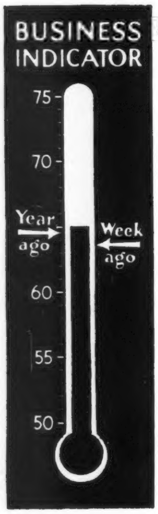
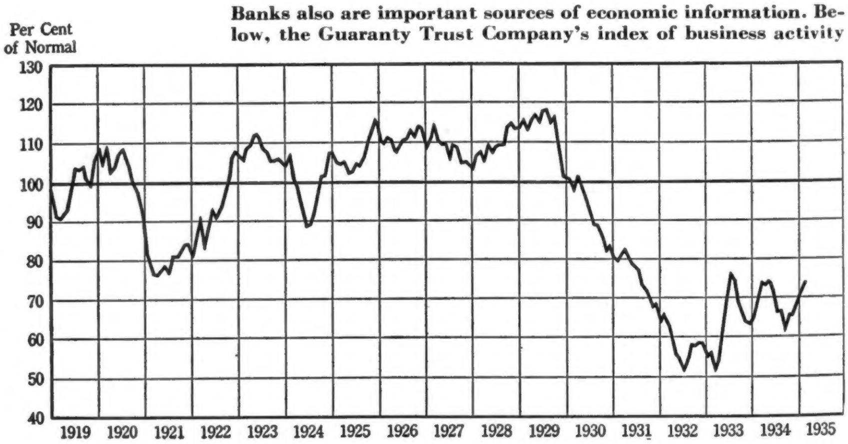
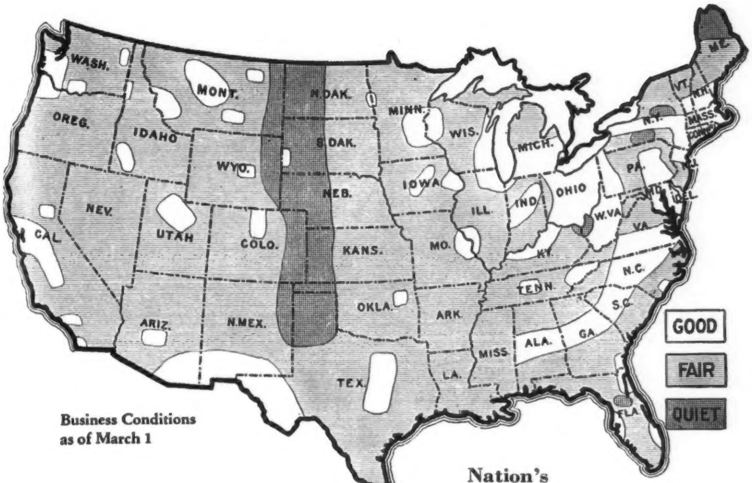


Business Week



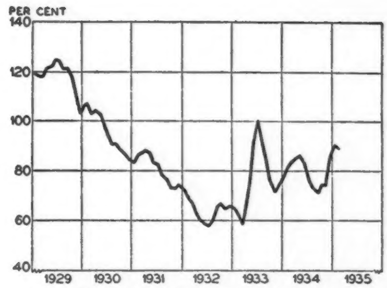
Banks also are important sources of economic information. Below, the Guaranty Trust Company's index of business activity



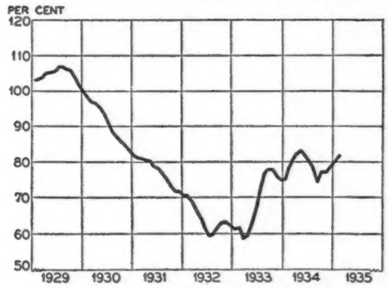


Business Conditions as of March 1

Nation's Business



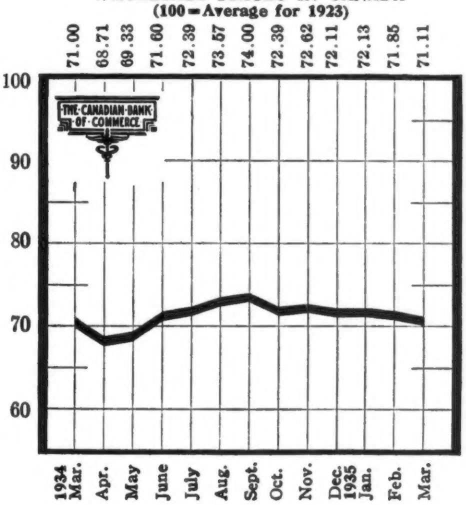
Index Number of Production of Manufactures and Minerals Combined, Adjusted for Seasonal Variation (1923-25 average=100 per cent)



Index of Factory Employment with Adjustment for Seasonal Variation (1923-25 average =100 per cent)

Federal Reserve Board

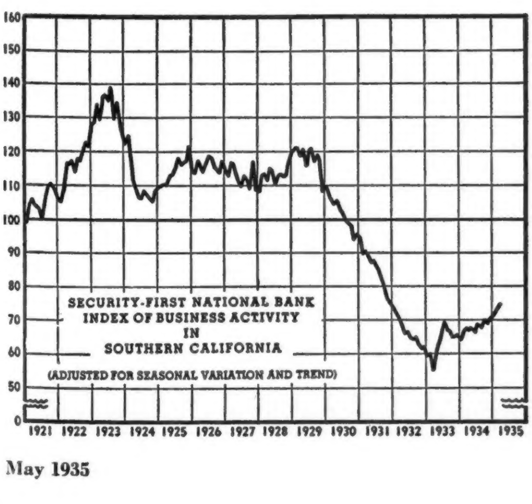
THE CANADIAN BANK OF COMMERCE INDEX NUMBER OF WHOLESALE PRICES IN CANADA (100=Average for 1923)



THE ANNALIST INDEX OF BUSINESS ACTIVITY

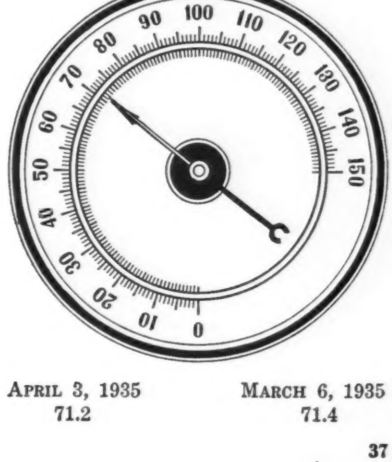
	1935. Mar.	1935. Feb.	1935. Jan.	1934. Dec.	1934. Nov.	1934. Oct.	1934. Sept.	1934. Aug.	1934. July.	1934. June.	1934. Feb.
Freight car loadings	†66.8	67.3	66.2	63.1	58.9	57.6	59.1	59.6	61.9	64.9	67.4
Steel ingot production	61.4	68.4	69.1	57.3	42.8	36.1	34.3	34.3	40.8	77.4	54.9
Pig iron production	54.4	58.1	52.3	37.2	33.3	31.8	31.2	34.8	40.6	64.6	45.8
Electric power production	*99.0	99.4	98.4	97.8	93.6	92.5	92.4	94.1	96.7	95.8	93.1
Cotton consumption	...	90.1	97.0	84.3	86.0	92.2	58.5	82.4	77.6	68.5	89.2
Wool consumption	...	...	...	*123.1	102.2	76.0	41.2	62.8	69.0	63.0	75.8
Silk consumption	70.1	68.2	67.1	74.6	60.8	75.5	54.4	57.1	58.2	61.7	66.6
Boot and shoe production	...	...	123.3	110.7	99.2	89.0	92.5	108.3	108.9	108.2	117.5
Automobile production	*101.2	102.1	104.1	95.6	43.5	51.6	52.7	62.4	70.9	71.2	71.1
Lumber production	...	53.5	54.6	46.3	42.5	46.7	50.2	55.5	44.8	47.6	49.5
Cement production	...	39.8	37.9	43.9	42.3	40.8	46.8	43.8	49.6	52.8	55.8
Zinc production	63.8	65.1	65.3	66.7	68.0	66.2	53.7	52.5	51.0	52.3	61.7
Combined index	...	*83.7	*83.5	*73.7	71.3	70.5	66.5	71.1	73.2	77.2	76.7

For monthly figures on the combined index back to January, 1919, see THE ANNALIST of Jan. 19, 1934, page 177.



Dun & Bradstreet

THE ACTIVITY BAROMETER



APRIL 3, 1935
71.2

MARCH 6, 1935
71.4

Government Banking

IT is the declared intention of the Federal Government, repeated from time to time and given special emphasis in recent official statements, to get out of the banking business as soon as possible. The implication in all such statements is that the Government can do this only if and when commercial banks take up the credit burden and relieve Federal authorities of the responsibility they feel for financing of sorts of undertakings—relief, recovery and otherwise.

There is unavoidable difference of opinion as to how and when this shifting of the credit burden can be accomplished. The Treasury is now so far in the business of lending money that it will be a long time before its principal activities along this line can be liquidated under the best of circumstances. A considerable portion of the Government's credit structure is permanent by intention, notably the farm credit system. There is also a strong movement to make permanent some features of the Public Works Administration.

COMPLICATED SET-UP

Even assuming that by far the larger portion of the Government's banking activities is temporary, however, the most cursory review of these activities indicates how difficult and how long a process their liquidation will require. The set-up of the governmental agencies is extremely complicated. Most of them are built upon other agencies in an interlocking organization in which capital and credit functions are inextricably mixed.

Ten of the major credit organizations depend wholly or partly on the R.F.C. while at the same time they depend partly upon direct appropriations and partly upon loans from the money markets. Minor agencies depend upon these principal organizations, upon each other, upon direct appropriation and upon borrowing from the market. To unscramble these eggs will not be easy.

AGENCY RESOURCES

In addition to complicated organization there is the matter of sheer size and volume, neither of which is fully appreciated. On December 31 last the total resources of all banks in the Federal Deposit Insurance system—practically all banks in the United States—were about $46,400,000,000, which included interbank deposits and similar duplications. On March 1 the last date for which figures have been compiled, similar resources of the Government's credit agencies or outstanding direct credit amounted to $18,334,461,821 of which $10,929,648,-655 was in agencies wholly owned by the United States and $7,404,813,166 in institutions in which the Government has a proprietary, usually a controlling, interest.

Eliminating all interagency interests, the United States owned outright institutions with resources of $3,726,971,684 and had a proprietary interest amounting to more than the capital stock of agencies partly financed by the Government which had resources of $7,264,659,404; the two classes of agencies thus commanded resources of $10,991,631,088. That this means live credit is indicated by the fact that these institutions had loans or advances in the form of preferred stock or capital notes in the amount of $8,416,166,683. Investments were valued at $1,454,946,256. Accounts receivable and cash aggregated half a billion dollars, the remaining assets being tied up in old loans or property.

OLDER AGENCIES

Some of the Government institutions and activities included in these totals are old. The Panama Railway Company involves an investment carried at over $43,000,000; the old Shipping Board's Merchant Fleet Corporation has loans and property carried at $209,349,226; the war emergency corporations and agencies are carried at a little less than $15,000,000. Miscellaneous new agencies such as the Subsistence Homesteads Corporation, the Tennessee Valley Associated Cooperatives, the inland waterways, the Electric Home and Farm Authority, and so on, carry an investment of $349,158,967. Some funds of old agencies are dead from a credit standpoint, while those of the new agencies are yet to show their full activity.

HOME LOANS

John H. Fahey (left), chairman of the Home Loan Bank Board; Preston Delano, H.O.L.C. general manager; and James A. Moffet (right), who has resigned as Federal Housing Administrator, pictured at a Senate banking and currency subcommittee hearing

ACME

Into all these institutions the Treasury has actually put $4,439,182,428, net. They have a capital stock and surplus of $6,909,974,781 of which $2,470,792,353 represents inter-agency interests or a duplication, leaving the above figure net. As compared with the $4,439,182,428 owned by the United States, private interests hold stock to the amount of $327,450,355. In other words, the whole system is governmentally controlled. How safe the Government is in its investments, at least superficially, is indicated by the fact that in the agencies wholly owned by the Treasury the excess of assets over liabilities is carried as exactly balancing the Government's proprietary interest at $3,349,468,045, while in the institutions privately owned in part the excess of assets over liabilities is carried at $1,417,164,738 as compared with the Government's proprietary interest of $1,089,714,383. This seems rather optimistic, but pending developments book value naturally must be accepted.

Of the $3,727,976,684 assets of the credit institutions wholly owned by the Government it is doubtful if more than $1,250,000,000 can be considered as at all liquid, such amount including part of the R.F.C. loans, the advances to the Commodity Credit Corporation and the export-import banks, the regional agricultural credit corporations and the production credit corporations.

LIMITATION POSSIBLE Advances of the R.F.C. to railways, its subscriptions to preferred stock and capital notes of banks and insurance companies, many of its loans for self-liquidating projects, levees and other purposes, and its advances to other Government agencies can be repaid only over a considerable period.

Nearly all of the credit granted by agencies which are in part privately owned involves slow amortization where, as in the case of the farm credit institutions, the home loan bank system, and the F.D.I.C., they are not permanent. In short, the United States will be in the banking business for a long time. The most that it can expect to do is to limit its responsibility in this line to its present commitments.

Even this is not altogether possible. The extension of the bond issuing power of the H.O.L.C. by $1,750,000,000 means eventually, of course, the increase of the Government's responsibility in the way of guaranteed bonds by just that amount. This increase is not of the Government's choosing and the Federal authorities are bending every effort to induce private capital to take up the work of home mortgage financing.

"It would be a great mistake to make the H.O.L.C. permanent," said Chairman John H. Fahey. "If continued," he added, "the institution used by the Government to provide for the first time the machinery for dealing with the mortgage situation adequately might well become a national problem."

MORTGAGE REFINANCING The corporation feels that it has gone far enough. It will distribute the new funds provided by Congress among some 700,000 distressed mortgage holders and then wind up its business, which, however, will take upward of 20 years. Meanwhile, until its funds are exhausted the corporation expects to continue to refinance around $150,000,000 in home mortgages per month.

Activity in other branches of the Government's home loan and home construction enterprises is great, though it is uncertain what the ultimate results are to be. Increased business of the home loan banks has depended upon legislation to lower the rate for the insurance of mortgages. The Housing Administration reported that it had received applications for the insurance of $138,000,000 of home mortgages up to the middle of April; a smart pick-up occurred in the last few weeks. About 30 per cent of the applications cover new construction. New business, however, is spotty and mortgage loan development over the country is very uneven. Building and loan associations, whose business constitutes the chief factor in the Government's home loan insurance activities, report a 69 per cent gain in loans in the first quarter of 1935 over the same period last year, constituting the best record since 1930.

"It would be a great mistake to make the Home Owners' Loan Corporation permanent," said Chairman John H. Fahey. He added: "If continued the institution used by the Government to provide for the first time the machinery for dealing with the mortgage situation adequately might well become a national problem."

The corporation will distribute the new funds provided by Congress and then wind up its affairs, a task that will require upwards of 20 years. Meanwhile, it expects to continue to refinance about $150,000,000 in home mortgages monthly until its funds are exhausted

Present prospects indicate that a limit to the expansion of the Government's part in farm financing has been set. There will be further development of the farm credit agencies, but they will depend more upon the general money market than upon the Treasury.

During the past month the Federal land banks succeeded in refunding $162,796,900, or all of their 5 per cent bonds outstanding, by an issue of consolidated bonds at 3.75 per cent interest sold slightly above par. The importance of this new issue lies in the fact that for the first time in their history the land banks have been able to place their bonds at a coupon rate of less than 4 per cent.

LAND BANK FUNDS The immediate result of this successful refinancing is an end to all prospect of need for extending the $2,000,000,000 limit on bond issues of the Federal Farm Mortgage Corporation guaranteed by the Government. The land banks and the Land Bank Commissioner together had a fund of $2,200,000,000 to be used in refinancing farmers—$2,000,000,000 to be raised by Government-guaranteed bonds and $200,000,000 directly appropriated for use of the Commissioner for the purpose. Of this total the Commissioner had been allotted $800,000,000. Up to the middle of March total loans on this joint account aggregated approximately $1,645,000,000 of which the banks furnished about $950,000,000 and the Commissioner about $695,000,000; in addition, Commissioner's loans in excess of $100,000,000 had been approved. In other words, the Commissioner is practically at the end of his tether and unless his authority is extended, for which bills are now pending in Congress, his second mortgage and chattel mortgage loans must soon cease.

The Reconstruction Finance Corporation gives some indication that, as intended by the Government, it is entering upon the liquidation stage of its existence, although that stage does not promise to be very peaceful. Its new loans in March fell about $1,000,000 short of repayments, most of the latter coming from banks and trust companies which reduced their obligations to a net of about $538,000,000.

The most notable development, however, is in the increasing disposition of the corporation to protect the Government's interest by increased control of borrowers, especially delinquents.

Up to the beginning of March Government-guaranteed bonds of substantially a billion dollars had been issued, leaving about half of the possible issue intact. Assuming that the loan power of the Commissioner will be extended, the latter can draw upon this bond issue fund indefinitely since the refunding of land bank bonds at so satisfactory a rate will enable the land bank system to secure from the market all funds it will need for its straight first mortgage refinancing as well as for new mortgage loans.

Meanwhile, demand for both Commissioner's and other loans continues to fall off rapidly. At the peak of refinancing in October 1933, more than 78,000 applications for loans were received. Since then there has been a steady, constantly accelerated increase. In the month ending March 15 the number of applications was approximately 15,000. For the past three months the loan total written averaged about $65,000,000 a month as compared with $154,000,000 last July.

INTEREST REDUCTION

As a result of the improved prospects of securing low rate funds from the general investor the land banks have announced that hereafter the interest rate on new loans will be 4.5 per cent when placed through national farm loan associations and 5 per cent when placed directly. For about two years the rate through national farm loan associations has been 5 per cent with a temporary reduction to 4½ per cent until July 12, 1938, as provided by the Emergency Farm Mortgage Act of 1933. After the 1938 date these loans will bear 5 per cent interest while the 4½ per cent rate on new loans will be effective for the entire period of the loans. The reduction on new loans will not affect the 5 per cent on the Commissioner's loans which are made on either first or second mortgage security in amounts up to 75 per cent of the appraised normal value of the farm property.

The Reconstruction Finance Corporation gives some indication that, as intended by the Government, it is entering upon the liquidation stage of its existence, although that stage does not promise to be very peaceful. Its new loans in March fell about $1,000,000 short of repayments, most of the latter coming from banks and trust companies which reduced their obligations to a net of about $538,000,000. Most other miscellaneous borrowers also reduced their obligations slightly while railways expanded their loans slightly.

Development of the railway aid program of the corporation proceeds slowly, largely because of the unwillingness of railway bond holders to cooperate pending decision by Congress with respect to transportation legislation, and because of their disposition to delay action in the hope of an upturn in railway business. Meanwhile, the corporation is using its influence to secure a reduction in the interest rates on railway loans carried by banks to the 4 per cent rate charged by it on its own railway loans.

The uncertain factor in the Government's credit program is the Public Works Administration's part in the work relief program. Under the new legislation the P.W.A.'s activities are extended for another two years and there is general expectation that by that time a permanent organization represented by a bureau in the Interior Department will be set up to carry on public works activities indefinitely, though on a smaller scale. It is believed such a bureau can do effective work both in coordinating public work efforts of the states and their subdivisions and also in aiding these governmental entities in their financing.

Efforts to speed up work on the enterprises already in hand are meeting with only fair success. Up to April 1 only $179,541,250 of the total of $694,661,138 allotted to states and municipalities for public works had been expended and of this amount $63,614,340 had been repaid or collected, practically all of it the proceeds of the sale of state and municipal public works bonds through the R.F.C.

WORKS SPENDING

Total expenditures of the Administration on various allotments amounted to $1,468,190,179 out of the $2,933,779,943 actually allotted. Approximately $533,000,000 of the expenditures was for public highways, $141,000,000 in loans to railways for betterments, $190,000,000 for river and harbor work, $38,000,000 for the Boulder Dam project, $35,000,000 for the Tennessee Valley project and $378,000,000 for all other Federal projects.

April 1, 1935, marked almost exactly the halfway point in the disposition of the original public works relief and recovery fund after 21 months' operation. There is no question as to a continuation of the P.W.A. and its activity in lending money to states and their subdivisions for public works, the only doubt being as to how much. The amount will be determined largely by what the states can and will borrow for construction purposes. Since the R.F.C. has already sold or agreed to sell $75,450,050 of state and municipal securities for the P.W.A. and has succeeded in disposing of these securities at premiums, it is evident that much of this P.W.A. financing of state and municipal governments will eventually be done by banks or other investors, the P.W.A. acting largely as promoter and agent.

Inevitably this raises the question why such financing cannot be done by banks and other investors in the first place, saving to the latter the premium they are now paying the R.F.C. for these securities.

The export-import banks continue a more or less experimental development. The volume of their business has been small but there is considerable expectation that they will be able to work out practicable plans for cooperation with commercial banks in facilitating foreign trade transactions. They are preparing to finance foreign trade operations involving maturities up to five years, to carry commercial banks in deals involving blocked or pooled foreign exchange and in certain cases to assume part of the credit risk taken by commercial banks in foreign trade transactions.

EDITORIALS

The Problem of Premium Bonds

BOND offerings registered with the Securities and Exchange Commission during the first quarter of the current year amounted to $410,-250,000, nearly all of which was for refunding, and the greater part of which was for the refunding of issues priced above par. The new quarter began with an offering of $73,000,000 by the Southern California Edison Company for the refunding of 5 per cent bonds which have been selling around 106. The new issue is put out with a 3.75 per cent coupon.

The long expected movement toward refunding financing, which may be a prelude to substantial borrowing of new money, is well under way and banks and individual investors holding callable bonds priced above call face a situation requiring careful maneuvring if they are to avoid loss. The trend of investment returns under current credit and monetary conditions is so distinctly downward that it is unreasonable to expect that borrowers will be content to carry a bond coupon rate much above 4 per cent if their loans are callable. The present movement toward refunding is the logical result of credit conditions, and it may be expected to continue until all outstanding bond issues are brought into more harmonious relations with present rates for money.

Politics Out

TITLE II of the 1935 banking bill deals with broad questions of public policy, and therefore calls for careful analysis and for a frank and fearless expression of opinion on the part of the banking profession. As originally drawn the bill proposes far reaching changes in banking and further Governmental control over it. Naturally, there are vigorous differences of opinion concerning it, not only among bankers but also among business leaders and economists. In essence it goes to the very root of the question whether banking in the United States shall be put under Government domination or shall be free from political influences. And the term "political" does not refer to the present Democratic Administration, but to whatever political regime may be in power, whether it be Democratic, Republican, or, if you will, some other form of partisanship that might conceivably be placed in authority.

Whether bankers are Democrats or Republicans, they can all agree as citizens as well as bankers that they are unequivocally opposed to any political control of banking, whether it comes under the present Democratic or a possible future Republican Administration. This objection does not spring from partisan feelings but from the broad consideration that banking is simply not the field for politics of any denomination.

Bankers have not been unconscious of the fact that many earnest students, both within and without the banking business, have strongly believed that organized banking should oppose *in toto* everything contained in Title II and refuse to discuss any possible changes in it. Bankers have not felt, however, that the best practical results would be accomplished if they assumed such an attitude.

For too long a time the banking profession has been put in the light of always criticizing and obstructing the passage of new banking legislation, merely because it tended to sweep aside certain long-established practices and beliefs. Unfortunately too many members of Congress have not yet learned to believe that bankers can actually be motivated by purposes conceived in the broad public interest, and not merely in the interest of profits of their own institutions, or the selfish advantage of their own profession.

For these reasons and many others bankers have not believed that sweeping opposition to Title II was advisable. In the first place, it would surely have revived the cry that the bankers were back at their old game of selfish obstructionism. Also it would have solidified and strengthened the determination of those in Washington who are interested in putting through banking legislation far more radical than anything contained in Title II. Lastly, bankers believe that the mere appearance of obstructionism on our part would have aroused and aggravated unnecessary elements of human emotion and antagonism which would have obscured the merits of the case and caused presently conflicting interests to unite against the banking field.

MAKE HASTE SLOWLY

UNDER these circumstances it would be advisable to leave to the final determination of Congress whether it is considered advisable and necessary to pass legislation covering the subject matter of Title II at the present session of Congress, after pointing out that the time was really too short to give the matter the thorough consideration it deserved. Bankers have made it clear that they are ready to help in molding and guiding whatever legislation is to be enacted so that it will be conceived along lines of sound banking and sound public policy, which they believe are identical.

The main thought bankers should keep before Congress is that if banking reform is to be really beneficial to the public it must be kept outside of the domain of party politics, because no banking system can be sound unless it is non-partisan.

Credit Management in Branch Banking (IV)

By HOWARD WHIPPLE

This is the last of a series of four articles by Mr. Whipple, who is vice-president of the Bank of America, N. T. & S. A., San Francisco

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THE question will probably arise in the minds of many of those who have read the preceding articles in this discussion as to whether all this system of head office review and supervision will not destroy the self-reliance of branch managers. Will not their tendency be to pass the making of as many decisions as possible to head office officials; and conversely, will not the latters' tendency be to seize or accept too freely the opportunity of making decisions which should rightfully be made in the branches?

Very frankly the answer will be "yes" unless a determined attitude to the contrary is maintained by both parties. As a matter of fact, it is largely a matter of individual temperament. In time of stress the less resolute branch manager will almost invariably attempt to dodge responsibility by referring knotty problems to head office for solution. Even the more self-reliant variety, irked sometimes by what he may regard as an unintelligent attitude or the selfish handling of a branch problem by some head office superior, will avoid accepting responsibility for that particular problem at every opportunity thereafter. On the other hand, if the offending superior should be greedy for power or prominence he too will assist in weakening the branch manager's ability or willingness to make decisions by taking advantage of his higher rank and arrogating to himself the right to handle a transaction which normally belongs to another.

This morale-breaking attitude on the part of an occasional head office official may be paralleled in other ways. Unfair criticism of a branch manager's loan activities, no matter whether accidental or otherwise, can very readily destroy the spirit of a man, the very nature of whose work is often grueling, irritating and irksome. It should never be forgotten that the daily life of a branch manager, particularly when days of credit famine are at hand, is not exactly a bed of roses. He is in the front line trenches and bears the brunt of attack. He is compelled to deny credit to many insistent, yet unworthy, borrowers. He is required to collect unsatisfactory loans from debtors who are very often resentful and contentious, to say nothing of being frequently unprincipled. With this atmosphere facing him day after day, it is no wonder that he may be galled and goaded to the point of near-desperation should he find, on reaching his desk in the morning, a pile of letters from various officials at head office requiring his attention to matters which he may often regard as picayunish and unimportant. Letter writing to the branches, it is of fundamental importance to note, should be as limited in quantity and as narrowly centralized in the matter of the number of officials who are authorized to write as it is possible to arrange.

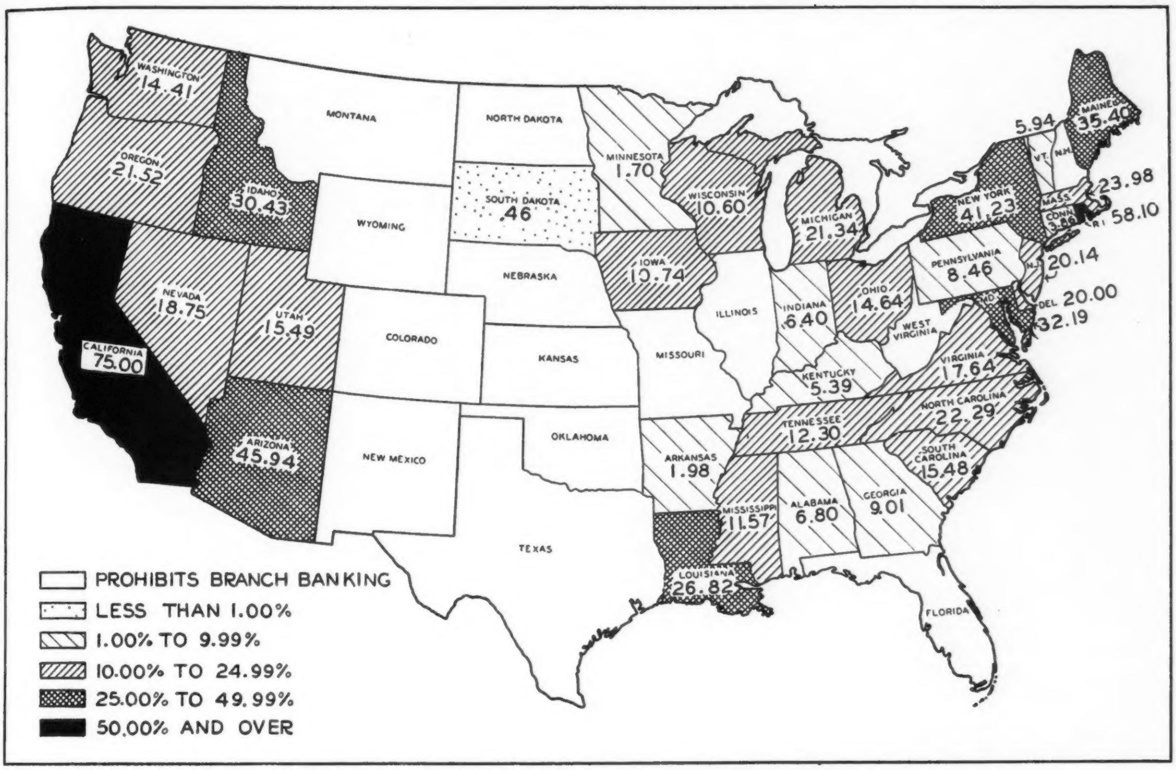
Nor is it altogether impossible that an occasional head office official—as well as an occasional government examiner—may be habitually imbued with the idea that his attitude toward all loans should be one of unfailingly adverse criticism in order that, if the credit turns out badly, his record as reflected in the loan file would be impeccable. If the loan turns out well, he is safe enough—for nothing is said. If badly, he can say, "I told you so". In any event, when this attitude exists the branch manager is constantly "on the spot" and the head office official permanently safe—in his own estimation. The system, fortunately rare, is exceedingly unfair. It is a prime duty of management to scotch it every time it raises its ugly head.

Other matters are breeding spots of discontent unless conscious and continuous efforts are made to purify them. The geographical separation between branch and head office, the absence or rarity of direct and softening contact between individual officials who must communicate by correspondence, the inability of some men to express themselves tactfully in a letter and the possible undue assumption of superiority by some head office officials for no more apparent reason than that they are head office officials, will destroy morale far more easily than such officials, who are probably unconscious of their attitude, may realize.

Less charitable, however, will branch managers be—and rightfully so—towards head office officials should the latter arrogate to themselves a branch manager's duties and prerogatives. That would principally consist of their giving answer in loan matters or other branch problems direct to the branch's customers who either seek it by mail or in person at head office. Scarcely anything a head office can do in its relations with its branches will more surely weaken or destroy the prestige of a branch in the eyes of its local community or the morale of a branch's staff. It is one of the burdens of branch banking that a considerable number of uninformed branch patrons become enamored of the idea that if they may hope to obtain the best and final answer to their credit application or other problem they should go to head office, a practice head office should do nothing to condone or encourage.

Its evils are obvious. The applicant for credit goes over the head of the branch manager for several invented reasons. A seemingly plausible one is that he may hope to save time by going to headquarters and so avoid the delays of correspondence, should that be necessary—a doubtful matter in these days of the long distance telephone.

A main objection to the practice on the bank's side is that head office is taken unawares. It is inconceivable that a head office official would wish to come to a decision until he had received the



This map shows, as of July 1934, the percentage of total banking offices that branch offices constituted in each state. A map giving these data as of July 1930 appeared on page 43 of last month's BANKING

branch manager's estimate of the value of the credit and his recommendation for or against it, no matter whether it were less or greater than the manager's limit. Certainly the head office official would be extra cautious in accepting the story of any credit applicant who would seek to go outside the established channels of credit extension. It would be impossible to have all the facts on such short notice. Nor could the head office official put much faith in the statements of a borrower who, denied credit by the branch manager for cause, would go to headquarters for the purpose of overriding him. How would headquarters know whether the applicant owned 1,000 acres or 10; whether his grain would yield 25 bushels per acre or only 5 or what his character might be? The only statement it could rely on would be that of its own branch manager, who is on the spot, has first-hand information and is a person of proved dependability. Furthermore the branch manager usually has a sufficiently adequate loan limit to enable him to satisfy at once all ordinary credit demands. Even should the application exceed the branch's local lending limit there is still no good reason for the journey to head office, for the manager's opinion and recommendation are still more vitally necessary than ever.

From the applicant's viewpoint the practice is also of dubious value. He overlooks the fact that his action is belittling to the branch manager and arouses his just resentment—to the disadvantage of the journeying applicant should he seek the favor of the branch manager in the future. In addition the applicant gains nothing in time —in fact he loses time—by going to head office, for the time consumed in making the journey must be added to the time required for correspondence, documents and other investigation to pass from head office to branch and return, before he receives his answer. Even then the answer is properly—and should be invariably—delivered by the branch instead of by headquarters.

On the other hand, it is possible to conceive that there may be occasions where a branch manager would deny a worthy application through his own personal animosity toward the borrower, a reason frequently alleged by applicants who are not entitled to credit. If there are such instances of improper bias I have yet to see one. Nine hundred and ninety-nine out of a thousand denials of credit by a branch are due to nothing more than the branch official's estimate that the application is not credit-worthy.

Under such circumstances a reversal of the branch's negative decision by head office would be all the more serious. It would tend to belittle the branch manager in his own eyes and in the eyes of the patron. Furthermore, the information that head office had reversed the decision would spread and encourage others to go over the head of the branch to head office for their answers.

It is easy to conceive that the tendency, if encouraged, could lead to grave abuses and serious congestion at head office. Manifestly, branches are maintained, not only for the purpose of giving depositing services, but also for the purpose of extending credit. Branch managers are paid for performing such duties, particularly the latter. If borrowers should insist on going to head office—or would be permitted to do so —the officials at that point condoning the practice (CONTINUED ON PAGE 84)

Real Estate Loans By National Banks

Statutes and Banking Bill of 1935	*(1) Class of banks*	*(2) Description of real estate; priority of lien*	*(3) Location of real estate*	*(4) Requirement to take entire mortgage*
Sec. 24, Federal Reserve Act, December 23, 1913.	National bank not in central reserve city (New York and Chicago) and not in other cities listed by Federal Reserve Board.	Farm land, improved and unencumbered.	Within Federal Reserve district.	No provision.
Amendment to Sec. 24, Federal Reserve Act, September 7, 1916.	National bank not in central reserve city and not in other cities listed by Federal Reserve Board.	(a) Farm land, improved and unencumbered. (b) Real estate improved and unencumbered, other than farm land.	(a) Within Federal Reserve district or within 100 miles of lending bank. (b) Within 100 miles of lending bank.	No provision.
Amendment to Sec. 24, Federal Reserve Act, by McFadden Act of 1927 (February 25).	"Any" national bank.	"First lien upon improved real estate, including improved farm land."	Within Federal Reserve district or 100 miles of lending bank.	The entire amount of the mortgage must be taken by the lending bank.
Banking Bill of 1935, S. 1715, H. R. 5357, 74th Congress, Sec. 210.	"Any" national bank. State members included as to "new" loans.	"First liens upon improved real estate, including improved farm land and improved business and residential properties." Bank may take, "as additional security for loans previously made in good faith, second or subsequent liens on real estate or shares or participations in such liens."	No restriction as to location of real estate.	Same as McFadden Act, immediately above.
Banking Bill of 1935, S. 1715, H. R. 5357, 74th Congress, Sec. 327.	"Direct loans to industry" are exempted from the restrictions of Sec. 24 of the Federal Reserve Act.			

PRIOR to the Federal Reserve Act in 1913 a national bank was not authorized to make loans on real estate security. Union National Bank v. Matthews, 98 U. S. 621, 25 L. ed. 188. However, Sec. 5137, U. S. Revised Statutes, expressly authorized a national bank to take real estate mortgages "in good faith by way of security for debts previously contracted." The chart below shows the statutory history of real estate loans by national banks and the provisions of the Banking Bill of 1935. (Prepared by the Legal Department, American Bankers Association.)

(5) Maximum period of loan	*(6) Maximum percentage of actual value of realty*	*(7) Maximum percentage of bank's capital and surplus*	*(8) Maximum percentage of bank's time (and savings) deposits if greater than (7)*	*(9) Obligations included in limitations of (7) and (8)*	*(10) Express limitation on loan to one borrower*
5 years.	50 per cent.	25 per cent.	⅓ of time deposits.	No provision.	No provision.
(a) 5 years. (b) 1 year.	50 per cent.	25 per cent.	⅓ of time deposits.	No provision.	No provision.
5 years. Note—By amendment of June 27, 1934, loans insured under Title II of the National Housing Act are excepted from these limitations.	50 per cent.	25 per cent.	½ of savings deposits.	Real estate loans on which bank "is liable as indorser or guarantor or otherwise."	First express provision, making loans subject to Sec. 5200, U.S.R.S.
(a) 3 years. (b) 20 years on amortized loans. Note—3-year limitation inapplicable to loans insured under Title II of the National Housing Act.	(a) 60 per cent. (b) 75 per cent. Note—Restrictions as to amount of loan in relation to value of the real estate not applicable to loans insured under Title II of the National Housing Act.	100 per cent.	60 per cent of time and savings deposits.	"Loans on which the bank is liable as endorser, guarantor, or otherwise, and the book value or [of] all real estate owned by the bank directly or indirectly except its banking premises."	Same as McFadden Act, immediately above.

The Special Committee of the American Bankers Association on the Proposed Banking Act of 1935 in a release on March 22, 1935, said:

"We do not favor Section 210 as originally proposed, permitting advances against real estate up to 75% of the actual value of the property if amortized within twenty years, or up to 60% of the actual value of the property for a term of not more than three years, in both instances without territorial limitations.

"We are in favor of the suggestion subsequently made that all real estate loans hereafter made shall not exceed 60% of the appraised value of the property and that the Board be given discretion to make regulations governing real estate loans held by banks at the present time.

"We also believe that the presently existing territorial limitations, or some similar limitations, should be retained in the law and that unamortized real estate loans should be permitted up to a period of five years."

Court Decisions

A DIGEST BY THE LEGAL DEPARTMENT

American Bankers Association

Merger; Guaranty

AFTER a bank took a continuing guaranty it merged with another bank. Bank of United States v. Glickman, 193 N. E. (N. Y.) 309, held that the guaranty included a loan, after the merger, by the consolidated bank. It would be easy to insert a clause in a continuing guaranty including a successor bank, whether as a result of conversion, merger, reorganization or otherwise.

Garnishment; Set-off

Contrary to the majority rule, Adolph Bergman Building & Loan Assn. v. Blaul, 175 Atl. (Pa. Super. Ct.) 743, holds that garnishment of a bank account precludes the bank from setting it off against a matured obligation of the depositor held by it. It seems that reservation of an express lien against the deposit would not change the result.

Deposit of Trust Cash in Affiliated Bank

A TRUST company as administrator was held liable for a savings and a commercial account in an affiliated bank which closed. The court considered among others the following factors:

1. "The stockholder and director identity of the two financial institutions", which however the court held did not "constitute such identity of interest as to charge the trust company with use of the money in its own business".

2. The trust company's "special knowledge of the status of its depository bank—one might almost say daily and continuous knowledge."

3. The 20 per cent decrease of the bank's deposits in the two years prior to the deposit of trust cash, and the further marked decrease of approximately $2,000,000 to some $13,000,000 in a six-day run immediately preceding the closing of the bank.

4. Liquidity. The trust company knew when the deposits were made that the bank's "liquidity was below the 40 per cent generally believed to be the standard for banks operating under similar conditions. It also knew that stock market conditions affecting liquidity were chaotic with a general falling tendency; and that little liquidity of loans was probable in the ordinary conduct of business." A few months later the liquidity dropped to 22 per cent.

5. The right of the bank to demand 90 days' notice before withdrawal of the savings account, in view of which "it is difficult to imagine upon what conception of reasonable diligence, as a trustee, the trust company could have believed that the deposit of trust funds in a savings account was proper." At the least, the trust company had "a duty of special and active watchfulness and care. . . . The continuance of the deposit in the form of a savings account, subject to notice before withdrawal, was not an active and diligent management of the estate. The least it could have done in the discharge of its duty would have been not only to convert the money into immediately withdrawable funds, but also upon indication of further risk to actually withdraw the trust money."

6. The good faith of the bank directors in trying to save the institution would not preclude the liability of the trust company.

The general conclusion was that "with all the danger signs appearing from conditions before the deposit was made and continuing with increasing peril thereafter, it would be depriving trust estates of reasonable protection if it were not held that . . . the trustee failed to use reasonable diligence to protect the trust". In re Culhane's Estate, 256 N. W. (Mich.) 807.

Getting Well Out on the Limb

CHICAGO HERALD & EXAMINER

Safe Deposit Charges

TO BANKING:

A CAREFUL analysis of the operating costs of most safe deposit vaults will probably show that they are being run at a loss, or so close to it that the charge made for rental, depreciation or capital investment might change the slight profit to a loss.

If this is true, what is to be done? First, establish the fact that the vault is being operated as economically as possible. When this is the case and the vault still shows a loss, the question arises as to whether banks are justified in continuing this type of business.

One of the chief reasons vaults operate at a loss is that the rates charged for rentals are far too low. There has been practically no change since the first vaults were opened at the close of the Civil War, yet operating costs have gone up tremendously. No vault could operate unless it were built to modern standards, which are high and naturally costly. When safe deposit boxes came into use there were no electric alarm systems, central office hook-ups and other forms of protection. These, if available, must be used today and they cost money. Instead of maintaining the rates, some institutions have actually cut their charges to customers, and are seemingly willing to operate at a loss.

At first glance this might lead to the conclusion that safe deposit departments should be closed; but there is another side to the picture. In the first place, only short-sightedness prevents banks from raising the rents at least to a point where the vault will not run at a loss. Bank customers, even those with small means, gladly pay the premiums on their fire and burglary policies. A person may pay $60 per year for protecting his house from theft to the amount of $5,000, or $12 per thousand to protect his belongings against fire. A $5 safe deposit box may well be affording protection to values many times greater than these figures.

The public needs safe deposit boxes, but banks should not be expected to operate their vaults at a loss. The answer to the question is not to close the vaults, but rather to secure an adequate rental for the boxes and place their management in the hands of a trained and qualified personnel.

F. T. COXE

Secretary
National Safe Deposit Advisory Council

Events and Information

The Augusta Meeting

UNDER the chairmanship of President Hecht, the Spring Meeting of the Executive Council, American Bankers Association, was held April 14 to 17 at the Bon Air-Vanderbilt Hotel, Augusta, Georgia.

Coming midway in the Association year, this annual conference affords an opportunity for the officials and various committee and commission chairmen to report on Association activities as they have developed since the last annual Convention. Some 350 bankers and members of their families attended.

Reports of commissions and committees were presented by the chairmen as follows: Agricultural Commission, H. Lane Young; Banking Studies Committee, Tom K. Smith; Bank Management Commission, Orval W. Adams; Bankruptcy Committee, M. R. Sturtevant; Commerce and Marine Commission, Fred I. Kent; Economic Policy Commission, Leonard P. Ayres; Export-Import Bank Advisory Committee, Robert F. Maddox; Federal Legislation Committee, Ronald Ransom; Finance Committee, Robert V. Fleming; Insurance Committee, W. F. Keyser; Membership Committee, E. N. Van Horne; Public Education Commission, Frank M. Totton; Special Committee on Section 5219 U. S. Revised Statutes, Charles H. Mylander, in the absence of Charles P. Blinn, Jr.; State Legislation Committee, A. T. Hibbard; Taxation Committee, Robertson Griswold.

The Executive Council received the reports of the President; the Administrative Committee (presented by Mr. Hecht); the Executive Manager, F. N. Shepherd; and the Treasurer, Hal Y. Lemon, followed by reports of the departments: advertising and publicity, Gurden Edwards; BANKING, journal of the American Bankers Association, William R. Kuhns; legal department, D. J. Needham; protective department, James E. Baum. After these came reports of divisions and sections by the presidents as follows: American Institute of Banking Section, Charles F. Ellery; National Bank Division, C. J. Lord; Savings Division, T. J. Caldwell; State Bank Division, James C. Bolton; State Secretaries Section, George A. Starring; Trust Division, Leon M. Little.

There were also meetings of the various Association divisions and of the state and Federal legislative councils.

Speakers at the dinner meeting on the evening of April 17 were: President Hecht; Roger W. Babson, president of Babson's Statistical Organization; and Frank M. Totton, second vice-president of the Chase National Bank, New York, and chairman of the Public Education Commission.

Banks' Agricultural Activities

THE Agricultural Commission of the American Bankers Association, which receives reports annually on the agricultural activities of the different state bankers associations, announced at the Spring Meeting that the returns for 1934 showed that both California and Washington had reached the goal of 1,000 points in the Commission's rating program.

Both states have had very active agricultural committees, headed by J. E. Huntoon, Bank of America, N. T. & S. A., San Francisco, for California, and by F. H. Jenne, Mount Vernon Branch, First National Bank of Seattle, for Washington, the Commission stated. As a result of this attainment each state was awarded a certificate of honor. These awards were made at the meeting. Andrew Miller, secretary of the California Bankers Association, and Joseph W. Brislawn, secretary of the Washington Bankers Association, received the honors on behalf of the agricultural committees of their respective organizations. They presented statements as to the type of work under way in their states.

The Commission also announced that Oregon had made its goal of 1,000 points for six consecutive years, Georgia for five consecutive years, and North Dakota for four consecutive years. Several other states have made high records, while the results showed for the country as a whole a gain of more than 65 per cent in banker-farmer activities for the past year.

The A. I. B. Convention

MEMBERS of the American Institute of Banking (CONTINUED ON PAGE 52)

APPOINTMENTS

President Hecht has named Dan V. Stephens as a member-at-large of the Executive Council to succeed the late Eugene R. Black. William C. Potter has been appointed Chairman of the Foundation Trustees. Mr. Stephens (below, right) is president of the Stephens National Bank, Fremont, Nebraska, and Mr. Potter is chairman of the board of the Guaranty Trust Company, New York

7. Months annual inspection is overdue.
8. Taxes unpaid.
9. Water bill unpaid.
10. Mortgage in process of foreclosure.
11. Property being operated by bank.
12. Operated property for rent or for sale.

Kardex displays these vital facts in the visible margin

1. Mortgage loan number.
2. Location of property.
3. Name of owner.
4. Amount of mortgage.
5. Date of maturity.
6. Rate of interest.
7. Type of mortgage:

(a) Home (b) Apartment house
(c) Hotel (d) Office Bldg. (e) Farm

Phone for FREE SURVEY

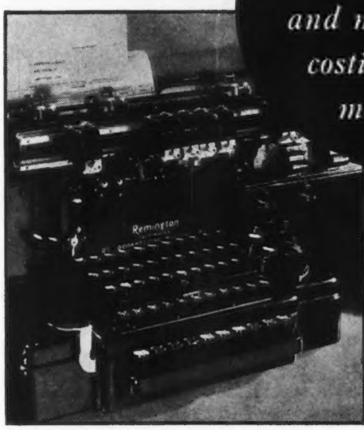
Setting up positive mortgage control whether machine or pen-posted is only one of the services which Remington Rand offers to banks. But the biggest service of all is the fact that Remington Rand can be impartial and unbiased in its application and advice. Worn-out or out-of-date second-hand equipment can be a source of great waste. Manufacturing all types and kinds of equipment, Remington Rand can recommend exactly the improvements which will do the work for you in the most economical way. Phone the Remington Rand man now for an expert analysis of the problems which worry you most. No obligation for his services.

Some of the Remington Rand products saving money for bankers

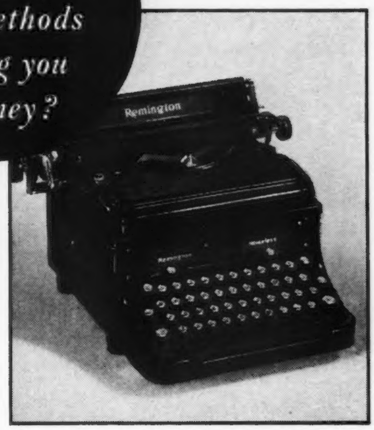
KARDEX VISIBLE CABINET—Kardex Visible Central Information Files summarize all important business information on cards, with colored signals flashing vital facts. Bank executives can direct daily follow-up covering every service. A definite help in sales promotion used by hundreds of leading banks and trust companies in connection with deposit guarantee requirements.

REMINGTON RAND BANK BOOKKEEPING MACHINE—Proves its work as entries are made. Totals checks and deposits automatically. Lists them for tape comparisons of ledger and statement runs. Ten numeral keys make for speed. Produces original journal (no carbon necessary), making statement and journal simultaneously. Posts in front of and only 17 inches away from your eyes. Try it 30 days free.

Are outworn equipment and methods costing you money?



REMINGTON ELECTRIFIED BOOKKEEPING MACHINE—Furnishes the summarized facts and figures relating to trust, loan and discount and correspondent bank accounts. Posts the ledger, customer's statement, makes columnar distribution . . . all at one operation. Completely electrified, new, it offers the world's fastest method. Ask for thorough free trial in your own office.



REMINGTON NOISELESS TYPEWRITER—Unless you have seen and *heard* the new Remington Noiseless typewriter you have no idea how much it means in increased office efficiency. 23 important mechanical improvements produce better looking letters, more and better carbon copies, cleaner, sharper stencils. Writing perfection *with silence!* Ask for thorough trial in your office... no obligation.

from Remington Rand

Events and Information

(CONTINUED FROM PAGE 49)

will meet at Omaha, Nebraska, June 10 to 14 for the 33rd annual convention of their organization.

The central location of the convention city and the wide interest shown in the Institute's educational program by bankers, particularly younger members of the profession, are expected to assure an unusually large attendance. Prominent on the program is the ninth annual national public speaking contest for the A. P. Giannini Educational Endowment prizes, this year's subject being "The Bank's Service to the Community." This contest, made possible by Mr. Giannini's generosity, is a firmly established feature of the Institute's yearly gathering, and always provides keen competition.

Many details of the extensive convention program have not been fully arranged, but Richard W. Hill, national secretary of the Institute, has announced that the leaders of the departmental sessions will be as follows: "Audits and Accounting", Chester W. Hoyt, auditor, New York State National Bank, Albany, New York; "Bank Administration", Frank R. Alvord, vice-president and cashier, Citizens National Trust and Savings Bank of Los Angeles; "Business Development and Advertising", Thomas J. Kiphart, manager of publicity department, The Fifth Third Union Trust Company, Cincinnati, Ohio; "Credits", David M. Sweet, assistant vice-president, City National Bank and Trust Company, Chicago; "Deposit Functions", F. W. Thomas, vice-president, The First National Bank of Omaha; J. F. McDermott, vice-president, The First National Bank of Omaha; "Investments and Investment Banking", William A. Ten Eick Jr., assistant cashier, Chase National Bank, New York; "Savings Banking", H. H. Reinhard, vice-president, Mercantile-Commerce Bank and Trust Company, St. Louis; "Trust Functions", Walter E. Bruns, trust officer, Bank of America National Trust and Savings Association, Fresno, California.

The convention will meet just prior to the opening of the Graduate School of Banking, which begins its first session at Rutgers University, New Brunswick, New Jersey, on June 17. This school is an outgrowth of the Institute work, and its registration will be composed in part of bankers who have taken the Institute courses.

35 Cents a Copy

The outstanding public services you have rendered your community have been brought to our attention. We believe these unselfish activities might well receive wider publicity, especially at a time when

MR. JONES, president of the First National Bank, is reading a letter from the editor of a magazine. The banker has never heard of this particular publication, but its name is rather impressive.

"In our next issue," says the letter, "we plan to publish an article on the extent to which banks are cooperating in the national recovery movement. The public, it would seem, does not fully appreciate the splendid work being done by the banks, and we believe attention should be called to at least some phases of this constructive service.

"We learn that your bank has been particularly helpful in furthering the economic recovery of its community and we are mentioning its progressive attitude as an example of the work that is being accomplished by other banking institutions. To insure accuracy we feel that you should have an opportunity to review the references we have made to the First National. Therefore we ask whether you would be willing to go over these statements before the manuscript goes to the printer.

"If you care to do this please get in touch with me as soon as possible. We would be pleased to receive any further information you can give us concerning the bank's program."

Mr. Jones puts the letter aside.

"That," he remarks to his secretary, "sounds like a puff sheet. We won't answer."

The accuracy of Mr. Jones' diagnosis is due not only to his instinctive aversion to "write-ups", but to the fact that recently a business friend had received a somewhat similar letter from another magazine. This friend had sanctioned the article; furthermore, he had bought a couple of hundred copies of the publication at 35 cents each, only to learn later that it catered exclusively to unsuspecting persons like himself, and that its entire circulation was among individuals who had not objected to some favorable, if expensive and pointless, publicity.

Let it be assumed, for purpose of illustration, that Mr. Jones is unversed in the ways and wiles of "puff sheets" and that he replies to the letter, informing the editor that he will be pleased to examine the article and that he is sending a little additional information, including, perhaps, the bank's last condition statement. The ensuing procedure will be something like this:

In a day or two the editor calls by long distance telephone—charges collect—saying that he is going to press very soon and that to save time he suggests Mr. Jones listen to the article over the wire. Will he please interrupt if he has any revisions to make, for the magazine wants to be absolutely correct?

The editor reads and Mr. Jones is pleasantly surprised at the manuscript's accuracy. Also, being human, he is highly flattered at its tone, making a mental note that the home town paper never gave him a break like this. In short, he is in exactly the right frame of mind to answer the editor's question:

"How many copies of the issue can we put you down for, Mr. Jones? They're 35 cents each."

THE CATCH

PERHAPS Mr. Jones wonders why so pleasant an experience is being sullied by even a suggestion of commercialism; perhaps, on the other hand, he has been looking for a catch and is gratified that it is not more formidable. If he thinks 100 copies will be enough the editor politely advises 500, pointing out that Mr. Jones will wish to remember his many friends. Eventually a compromise is reached and the editor says a bill will be sent.

In due course come the statement and (after payment) the magazines. The latter arrive by express. Mr. Jones finds that the article is prominently displayed; unfortunately, however, this favorable impression lasts only until he has given the publication even a superficial examination. A casual perusal discloses that it is made up entirely of glowing tributes to sundry individuals and organizations, and the banker correctly surmises that its circulation is among the incredulous Joneses to whose little vanities it caters.

How did the editor find out so much about Mr. Jones? That's the editor's secret, but the chances are that most of the material was gleaned from an item in Mr. Jones' local newspaper, or from a business directory.

The hypothetical banker was no more easily imposed on than are hundreds of other businessmen and businesses. The National Better Business Bureau, Inc., has fat files covering the many ramifications of "puff sheet" enterprise, and in its list are numerous instances of bankers who have been caught off their guard. Incidentally, the Bureau also receives numerous communications from banks whose customers, having been approached by a "puff sheet," want their bank to find out something about the magazine before they commit themselves.

The "puff sheet" is an old business. It is admittedly hard to stop, for apparently it has been conducted within the law, although last November the postal authorities barred one of these magazines from the mails. However, it is difficult to place the tag of illegality on such publications; they execute their part of each contract by delivering the purchased copies, and they are careful about the letters they write. Often, indeed, introductory correspondence is dispensed with in favor of a collect telephone call or telegram.

The best line of attack seems to be through the very medium peddled by the sheets themselves—publicity.

Cooperative Purchasing

One regional clearinghouse association is already exploring the possibilities of such an arrangement and is making a survey of what similar organizations are doing in this connection. The information is still incomplete, but the plan would seem to offer interesting possibilities.

RISING costs of bank supplies bring up the question whether banking institutions in the same locality can effect important savings by cooperative purchasing of standard materials in large quantities.

In recent years banks have provided for the cost of supplies used by customers—checkbooks, for instance—through the medium of their service charge schedules. However, there are numerous materials which the institutions themselves use in substantial amounts, and these items constitute a fixed part of the overhead.

CLEARINGHOUSE BUYING

THE development of clearinghouse associations has brought banks together for the handling of numerous mutual problems and services, and it has been suggested that the purchase of supplies might well be regarded as one of these. Quantity buying is often impractical for smaller institutions individually. They do not have occasion to purchase in sufficient volume to gain the benefit of more favorable prices, nor do they have space to store bulky boxes of stationery and forms. Likewise, a small bank often does not care to tie up sizeable sums of money in materials that will not be fully utilized for a period of several months.

However, both large and small banks in the same community may find it worth while to study the advisability of cooperative buying. The staple supply requirements of these institutions can usually be estimated for some time ahead, and if such goods are bought by one officer designated as purchasing agent for all banks in the town or city, welcome economies may result.

GEORGE R. SMITH
Cashier
Commercial National Bank
Demopolis, Alabama

Their *Extra* Margin of Safety

THE net below — that extra margin of safety—protects them against the constant risks of a hazardous profession.

F&D Blanket Bonds give this extra margin of safety to banks. They protect them against the risks of employee dishonesty, burglary, hold-up, accidental destruction of money and securities, and other hazards—many of which are not specifically insurable. An F&D Blanket Bond is the simplest and most complete protection a bank can buy.

The Fidelity and Deposit Company of Maryland specializes in the issuance of Fidelity and Surety Bonds. Since its beginnings in 1890, it has never failed to meet its just obligations.

Besides its thousands of local agents all over the United States, the F&D maintains complete offices in 38 principal cities, fully equipped to analyse your bonding requirements, to provide you with proper coverage, and to give prompt attention to the investigation and adjustment of losses.

FIDELITY AND DEPOSIT

COMPANY OF MARYLAND, BALTIMORE

The F&D and its affiliate, the* AMERICAN BONDING COMPANY OF BALTIMORE, *specialize in Fidelity and Surety Bonds, Burglary, Forgery and Plate Glass Insurance.

New Business Campaigns

BANKERS everywhere are following the lead of merchandise producers in advertising their wares through all the modern facilities offered by the radio and printed matter.

In rural communities the radio is offering opportunity for small banks to secure new business through contacts otherwise inaccessible. Untold hundreds of listeners to the local broadcasts are reached—people who, perhaps, seldom glance at the bank advertisements.

Experiments along novel lines to secure new business in heavily over-banked areas are resorted to. Here is one plan which was successfully operated in an eastern city:

ONE CAMPAIGN

A SURVEY of the entire territory covered by a certain bank was made with the thought in mind not only of securing new depositors but of selling certain facilities of this bank which might be helpful to the type of merchant in that locality. The first obstacle to overcome was friction with neighboring banks. Customers had naturally been banking with other institutions for years and had developed a mutually satisfactory relationship which the bank did not wish to break.

The problem was solved as follows: A chart was prepared showing all the competitor banks and also the localities from which this bank derived most of its business. Field men were sent into the territory and secured lists of non-depositors from building directories, lease records and superintendents. These were carefully checked at a central bureau to ascertain whether the bank had ever served these people in any possible way. Credit reports were secured on the most likely clients and an active file was built up for guidance during the campaign.

Representatives were then selected to interview personally each of the prospects, endeavoring to secure business by interesting them in some particular phase of bank activity. If the prospect happened to be an exporter or importer, he was invited to use the facilities of the foreign department; if a wealthy individual, the advantages of establishing a trust fund or custodian account. This campaign produced results far beyond expectations.

HENRY F. KOLLER

A Precaution in Cashing Checks

AFTER several western banks had been victimized by crooks who persuaded tellers to cash worthless checks through the use of forged officers' initials, the Colorado State Bank of Denver devised a method to avoid such tricks.

Explaining the system, F. L. Barkley, vice-president of the bank says: "The usual method of these fellows is to present a perfectly good check, along with proper identification, to an officer and get the item initialed 'O.K.' for payment. The crook then copies the initial on a piece of worthless paper and, unless the teller's suspicions are aroused, gets it cashed. The bank is out the money, perhaps a substantial amount.

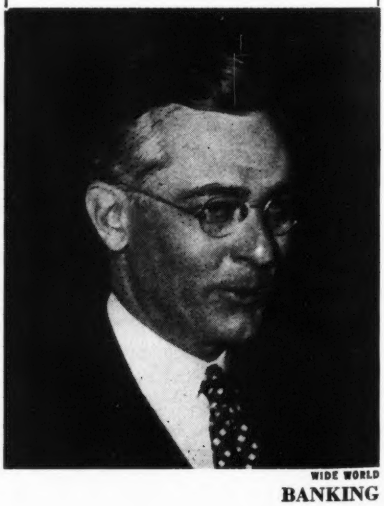
"Of course, this can be prevented by refusing to cash such checks under any circumstances or in accompanying the customer to the paying teller, but neither, for one reason or another, is entirely satisfactory. So we devised a system of our own to take care of these checks from strangers.

"When a check is brought to an officer for his approval and he is satisfied that it is good, he fills in a blank which gives a complete description of the item along with date and time of the interview. Each blank bears a serial number and this number rather than an initial is written on the back of the check. The customer then takes the check to the teller designated to handle such items, while the blank is routed to the same teller by messenger. When the check is presented, it and its description on the blank must tally or it is not cashed.

"The advantages in this are obvious. First, the officer's initials never get into the hands of the public. Second, if someone tries to substitute a worthless item by simply copying the serial number that the officer has used he is caught at once, for the substituted item will not agree with the description waiting in the paying teller's cage. Third, he is prevented from any other chicanery by the time element. If he does not reach the teller soon after the time indicated on the identification slip, the teller knows something is wrong."

COTTON TAX

George A. Sloan, chairman of the Cotton Textile Code Authority, told a Senate group that the cotton processing tax amounted to a sales tax on a necessity of life



WIDE WORLD

The Return on Time Deposits

THE problem of rising excess cash reserves has brought some banks face to face with the necessity of establishing a policy as to further gains in deposits, especially if the latter threaten to rise beyond the ratio which Government authorities appear to think proper. One of the stories now going the rounds relates to a New England bank president who, when asked by the Federal Deposit Insurance Corporation authorities to bring his modest capital more into line with his swollen deposits, decided there was no advantageous way in which he could employ more capital if he had it. So he wrote letters to some of the largest depositors and asked them to put some of their funds elsewhere. Thus he brought his capital structure into the proper ratio with deposits by working out the problem backwards.

A small bank, also in New England, went at the problem in a slightly different way. It decided it would not invest time deposits in long term bonds and would not pay 2½ per cent on time deposits while investing the funds at 1¾ to 2 per cent. It did not object so much to paying 2½ per cent on those time deposits which had been in the bank for a long time, on the theory that the money, when it was deposited, was advantageously invested in relation to the rate of interest paid. But it did object to paying 2½ per cent to newcomers. So, on all fresh time deposits, it adopted a policy of accepting only half the amounts offered, stipulating that, on condition of accepting that half, the other half would be deposited in a checking account.

To customers who thought the offer peculiar, the bank frankly explained that the institution was primarily a safe place for money; that it could not continue to guarantee safety while paying interest at a rate more than it could earn on the money at short term. Nor could it invest a deposit technically returnable in 60 days and actually returnable on demand in even a Government bond running 20 or 25 years. And, obviously, the customer would be the first to complain if the bank put his money into an unliquid mortgage.

Most of the customers saw the point. Those who insisted upon the maximum interest went with the bank's blessing to the post office or to the rival across the street, which was still paying 2½ per cent on every time deposit and losing money on reinvestment of the funds. But many more figured that the lost interest was too small a sum to go to the trouble of changing banking relationships to obtain. Furthermore, most of them were so accustomed to going into one place that they had no desire to go elsewhere.

Some banks view the problem differently and take the stand that, with huge cash reserves as an augmented guarantee of the liquidity of demand deposits, they can afford to expand time deposits and buy longer term bonds or even make some modest mortgage loans of a character which is pretty high, bringing up the average return sufficiently to cover the 2½ per cent by a sufficient margin. Such institutions usually are large ones in cities whose investment field is wider than that available to the small bank far removed from financial centers.

The Investor's Dilemma

IT has long been the practice of those who buy securities for investment purposes to give some consideration to the factors which govern the general level of commodity prices. The astute investor knows that the purchasing power of his income in future years may be seriously affected by a change in the price level, and that he can ill afford to commit himself to a definite investment program until he has reached a reasonably well founded conclusion as to whether the level of commodity prices is going to rise, remain fairly stable or decline.

As a result of the lessons of more than half a century of alternate periods of rising and falling prices, seasoned investors are constantly on the alert to keep their investment selections in tune with their ideas as to the future trend of prices. When they are convinced that the long-time trend of prices will be downward, they increase their holdings of bonds and preferred stocks; when they anticipate higher prices, they try to improve their capital and income position by selecting the common stocks of companies most likely to be favored by a turn in the business tide.

During the past two years, the demand of the debtor classes for inflation has been so insistent, and so much legislation of an inflationary character has been enacted, that the investment community is now giving more attention to the price-outlook appraisal than ever before. What was formerly a matter of concern to seasoned investors alone is now of major interest to practically all security buyers. Everywhere one hears the sentiment that higher prices are in prospect, that some kind of inflation is imminent, and that, as in times past, common stocks afford the best means of preserving one's capital in the years to come.

No one can say authoritatively how much or how soon the general price level will rise, but there is good reason for believing that substantially higher prices are in prospect—in the distant future at least. This conclusion seems fully warranted by the single fact that the gold dollar has been devalued 41 per cent. The division of our gold stock into new dollars containing only 59 per cent as much gold as formerly has given us almost twice as many dollars for reserve purposes as we ever had; and while this great accretion to the number of our gold monetary units will not *cause* a rise in the price level (beyond the initial fillip it imparted to the prices of export products), it will *permit* a far higher level of prices than any we have yet known, once the conditions which make for profitable business activity and full employment are restored.

A fundamental principle which should be more fully appreciated is that the number of gold dollars in our possession cannot determine the level of prices. All that these dollars can do, if our currency is convertible into gold, as it will one day surely be, is to predetermine the limit to which credit can expand and prices can rise under the natural stimulus that comes from unrestricted trade conditions. The moment we increase the number of gold dollars in our banking reserves, whether through devaluation or otherwise, we postpone the day when the limit to expanding credit and rising prices will be reached. In the end, however, the additional credit supply which the new gold dollars make possible is certain to be used up; then the brakes have to be applied.

The world's experience to date shows that whenever a nation has devalued its standard money so that it had more monetary units as a base for credit expansion than before, its level of prices sooner or later reached the upper limit which the number of its standard monetary units had predetermined.

Over and above the considerations growing out of dollar devaluation, there is the much discussed possibility of currency inflation as the result of outright "greenback" legislation by some future Congress, or of the continued excess of Federal expenditures over Federal revenues. This road has only recently been traversed by many European countries. We know only too well where it leads. Unfortunately, no one can say how long we could travel it with safety, once we got started, or whether we will travel it at all. In appraising a situation of this kind, the investor must necessarily rely upon his own judgment and intuition.

The sentiment is often expressed that a substantial rise in commodity prices, whether caused by the issuance of "greenbacks" or permitted by dollar devaluation, could be so well controlled that the investing classes need not be seriously affected. Plausible as sentiment of this kind may seem, the histor-

"He Should—They're Big Enough!"

RUSSELL IN THE LOS ANGELES TIMES

ical fact is that no scheme of price-level fixation has ever succeeded anywhere for any length of time. A few years ago many observers thought our own Federal Reserve Board had discovered the secret of price fixation in the policy of controlling the use of gold and the nation's supply of credit. Yet with all the power it had at its command, the Reserve Board was unable to maintain control over gold, credit or prices; and since 1929 it has been powerless to revive business or prices through the policy of making our credit supply redundant. The time may come when the problem of maintaining stable prices can be solved in some other way, but there is no indication that this goal will be reached in the near future.

COMMON STOCKS

Assuming, then, that there will continue to be wide swings in the price level and that the long term outlook is for much higher prices, is it sound policy for the investor to look to common stocks for the protection of his capital and future income, as in the past?

It must be recognized, of course, that well selected common stocks in industrial and trading companies which are producing necessary products and services will afford protection to investors as in years gone by, provided the rise in commodity prices is moderate. But the rule about buying common stocks when higher prices seem imminent becomes dangerous when it is used as a hedge against wild inflation. Inflation of the German or even of the French variety would destroy the working capital of most industrial companies and much of the equity of their shareholders.

Suppose, for example, that an industrial or trading company, free from bank debt, now has an inventory on its books of $20,000,000. If prices should rise 50 per cent, the company must have additional capital of $10,000,000 to carry on the same volume of business. Ordinarily new capital for inventory purposes can be borrowed from commercial banks so long as the ratio of inventory (and other quick assets) to bank loans (and other quick liabilities) is two to one or better. In the above illustration, the limit of this ratio would have been reached as soon as prices had risen 100 per cent. Further bank borrowing would then become impossible.

In this emergency, new capital would have to be obtained from other sources if the business was to carry on. Raising new capital through the sale of bonds would be next to impossible in a period when the purchasing power of the dollar was rapidly depreciating. Either the shareholders would have to come forward with new capital and subscribe to new shares, or the company would have to restrict its operations. In the end, the management would probably be confronted with the necessity of suspending operations entirely, for want of working capital. Companies in France and Germany encountered just these difficulties during the inflation period, and many had to close.

It is well for the investor to realize that while the common stocks of industrial and trading companies which deal in necessities and which have a large surplus of working capital may afford good protection against the kind of depreciating dollar we have known in the past, they are in no sense a hedge against inflation of the European variety as is so commonly supposed. One must go outside the securities market entirely to find a semblance of protection against such a catastrophe. Preferably, one would invest in land that could be cultivated, a home that could be lived in, products or precious metals that could be stored. These would be far superior to securities if the inflation danger became serious.

G. E. PUTNAM

A Turning Point

(CONTINUED FROM PAGE 23)
and distributed speeches at the Bank's expense, subsidized newspapers to print Bank propaganda and in general conducted a campaign in favor of recharter that was certain to stiffen Jackson's hostility. The Bank's opponents confined themselves largely to invective. The principle of the anti-bank men was to throw as much mud as possible, with the idea that some of it would stick. But nothing during Biddle's administration was established except to the Bank's credit and to the discredit of the honesty, purposes and intelligence of its opponents.

The recharter bill included every concession which McLane had indicated Jackson would demand, and it passed the Senate June 11 by a vote of 28 to 20 and the House on July 3 by 107 to 85. Jackson's veto was a foregone conclusion and, indeed, was desired by the Whigs. The veto message, which seems to have been written largely by Amos Kendall, does not rank high as a financial essay but it was admirably calculated to succeed in its real purpose of providing a political document for the campaign.

Jackson said the recharter involved a gratuity to the stockholders for which a fair return was not made to the public. The Bank tended to make the rich richer and the poor poorer. The foreign stockholders made the institution virtually a foreign bank, which was dangerous in time of war. Other sentences in the veto message spoke of monopoly to a favored few and danger to state rights, and it employed slogans calculated to appeal especially to western interests. The effort to carry the bank bill over the President's veto failed, of course. The Bank became the chief issue in a bitter campaign in which it participated actively, and Jackson was easily reelected.

The Treasury, at Jackson's insistence, and after one of the most dramatic struggles in American history, removed the Government deposits from the Bank in 1833, and its Federal charter duly expired in 1836. At that time it was in sound condition, and instead of going out of business it obtained a charter from Pennsylvania as the United States Bank of Pennsylvania, with the same capital as the old bank.

END OF THE BANK

THE history of the United States Bank of Pennsylvania is a record of what ought not to be done in banking. In almost every respect Biddle and his successors reversed the policy of preceding years. The institution was a finance company rather than a bank. Its final blunder was to anticipate the Farm Board of 1929 in a grandiose attempt to keep up the price of American cotton. The panic of 1837 caused its suspension and its own misconduct completed its ruin. Biddle resigned in 1839, but the Bank was too far gone to be saved even if Biddle's successors had been sound bankers, of which there is no evidence. Creditors ultimately were paid, but the stockholders suffered a total loss. In spite of the patent mismanagement of the Bank, Government necessity before its final suspension was so great that, had the Bank retained any virtues, it would almost inevitably have been employed as the Government's chief fiscal agency.

Nicholas Biddle went down in the general collapse. In 1840 the Whigs had elected William Henry Harrison President, and it was known that the next year Daniel Webster would be Secretary of State. Biddle wrote to Webster recalling his early diplomatic experience

as secretary in Paris and London and asked Webster whether he could not arrange to have him appointed as Minister to Austria. There were no more refreshers to be obtained from the great Bank. Webster was a practical politician and knew that the appointment of Biddle to any conspicuous position would not be popular. His reply was brief, polite and discouraging. By the next year Biddle was the focus for all sorts of attacks and suits.

All that was clear was that the great banker was no longer a great banker and that the successful financier was now a failure. Biddle died in 1844 long before the Bank of the United States was finally liquidated and two years after Charles Dickens on his American tour described "a handsome building of white marble which had a mournful, ghost-like aspect dreary to behold. I attributed this to the sombre influence of the night, and on rising in the morning looked out again, expecting to see its steps and portico thronged with groups of people passing in and out. The door was still tight shut, however; the same cold cheerless air prevailed, and the building looked as if the marble statue of Don Guzman could alone have any business to transact within its gloomy walls. I hastened to inquire its name and purpose, and then my surprise vanished. It was the tomb of many fortunes, the great catacomb of investment—the memorable United States Bank."

NEWS

C. F. Craig of A. T. & T. testified in Washington that press associations use 300,000 miles of telegraph circuits to carry news through the United States

HARRIS & EWING

One Per Cent Per Annum

WHEN the Beverly Hills National Bank & Trust Company of Beverly Hills, California, recently decided to reduce its savings fund interest to a 1 per cent yearly basis it said to depositors in a letter which was signed by the president of the institution:

"Your money is our sacred trust. Our firm intention and duty is to have it for you when you want it and need it.

"The fulfillment of that duty requires that your funds be employed only in accordance with our past high standards. The time has now come when it is no longer possible to pay interest to our savings depositors at the rate we have in the past, and maintain our standards. Since we have no intention of lowering such standards, our only alternative is to reduce the rate of interest paid on savings deposits.

"It is with regret that we find it necessary to announce that ONE PER CENT per annum will be the rate on savings funds with this bank after April 1, 1935."

Cooperation with Police

BANKS in New York City have received from Police Commissioner Lewis J. Valentine a four-page circular letter on the subject of robbery hazards and methods for their reduction or elimination. The suggestions are applicable to all banking institutions and a summary of them may be of interest to bankers elsewhere.

Bandits planning an early morning robbery, the commissioner pointed out, closely examine the premises and study the habits of employees. Finding that a burglary would be impossible, they may nevertheless keep the bank under observation to determine the routine followed by the watchman or porter and the procedure at opening time.

The greatest weakness found in connection with most branch banks, the commissioner observed, is that it is possible for bandits to:

Obtain admission through the roof, windows, rear doors, cellar, etc., and overpower the watchman; induce the watchman or porter to admit them by using some subterfuge; force an entrance when the watchman leaves during the night or early morning; force an entrance when the porter or first employee arrives for work.

To minimize the possibility of bandits' effecting entrance while banks are closed or being opened, Mr. Valentine made these suggestions:

The watchman should not leave the bank under any circumstances, except in case of fire, and should admit no one except known employees. When there is no watchman and the porter is first to arrive in the morning he should not enter until the patrolman on post is present. Watchmen or porters should record license numbers of strange automobiles parked near the bank or cruising in the neighborhood. Banks should remove window obstructions, such as screens, which prevent a clear view of their interiors from the street.

Each bank manager should obtain the telephone numbers of all police offices in his district, and those numbers should be conspicuously displayed, particularly in paying and receiving tellers' cages.

C.C.C.

Robert Fechner, director of the Civilian Conservation Corps, will have the number of his camps and workers practically doubled under the work relief appropriation

HARRIS & EWING

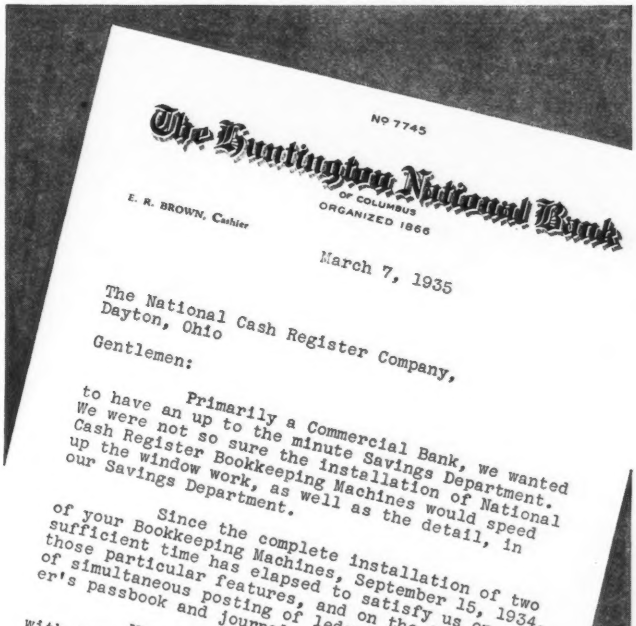
National

Posting Machines speed up "Window Work" in the Huntington National Bank

● The Huntington National Bank of Columbus, Ohio, adds its approval to that of hundreds of banks which endorse National Posting Machines for savings and thrift accounts. The accompanying letter from Mr. E. R. Brown, Cashier, speaks for itself.

From the day The Huntington National Bank installed Nationals, their depositors received faster window service and legible, machine-printed entries in their pass books. In addition, the bank immediately got "first hand" control over all savings department transactions. Besides this, there was a reduction in clerical work.

May we give you complete information about National Posting Machines and what you may expect them to do for you? A telephone call to our local representative or a letter to us will bring you all the facts.



No 7745

The Huntington National Bank
OF COLUMBUS
ORGANIZED 1866

E. R. BROWN, Cashier

March 7, 1935

The National Cash Register Company,
Dayton, Ohio

Gentlemen:

Primarily a Commercial Bank, we wanted to have an up to the minute Savings Department. We were not so sure the installation of National Cash Register Bookkeeping Machines would speed up the window work, as well as the detail, in our Savings Department.

Since the complete installation of two of your Bookkeeping Machines, September 15, 1934, sufficient time has elapsed to satisfy us on those particular features, and on the importance of simultaneous posting of ledger card, customer's passbook and journal.

You may be interested in knowing that with the aid of the above machines the same Savings Department personnel are handling in excess of one thousand savings accounts more than on September 15, 1934, and we have room for greater expansion with the same equipment.

Very truly yours,

E. R. Brown

Cashier.

● *Savings Windows, The Huntington National Bank, Columbus, Ohio*

THE National Cash Register Co.

DAYTON, OHIO

Cash Registers ● Typewriting-Bookkeeping Machines ● Posting Machines ● Analysis Machines ● Bank-Bookkeeping Machines ● Check-Writing and Signing Machines ● Postage Meter Machines ● Correct Posture Chairs

The Abundant Resources of Banks

WHETHER or not the rising tide of bank resources in the United States threatens to overwhelm the banks themselves, the latter at least now have a fair measure of the flood which is upon them. For the first time there are now available really comparable statistics of developments in the country's banking business over a half-year period.

It has been anticipated that the statement of condition of member banks in the deposit insurance system following the December call would show a large increase in deposits as compared with the returns for last June, but it was hardly expected that the increase would amount to as much as $3,180,670,000 to a total of $38,994,264,000. It was also anticipated that there would be no proportionate increase in the loans and investments of the banks, but it was not realized that the increase would be only $1,086,183,000, or only about one-third of the increase in deposits.

Analysis of the returns on deposits develops two significant facts. One is that the deposits of individuals and corporations have increased in greater proportion in the smaller banks, presumably reflecting more money in agricultural and out-of-the-way districts, especially where governmental expenditures have been heavy. The second feature is the immense increase in inter-bank deposits, reflecting large balances carried by country banks with their metropolitan correspondents. Deposits of the Federal Government, the postal savings system and other public funds practically remained unchanged in the six-month period, an increase in deposits of states, municipalities and the like being virtually offset by a decrease in the deposits of the Federal agencies, notably postal savings.

Deposits of individuals and corporations increased from $26,201,268,000 to $28,369,658,000, or by $2,168,390,000. Demand deposits increased from $4,835,278,000 to $5,813,246,000, or by $977,968,000. These funds were absolutely idle except insofar as metropolitan banks invest a part of them in short term Government securities.

The most notable feature of the loan and investment returns is the avidity with which all the banks, particularly the smaller ones, have taken up securities of the Home Owners' Loan Corporation and the Federal Farm Mortgage Corporation guaranteed by the Government both as to principal and interest. The increase in all banks' holdings of these bonds was from $593,524,000 to $1,209,835,000, or $616,311,000. The non-member state banks took $136,000,000 of this increase, or nearly twice as much as the national banks in proportion to their respective resources. National and other member banks increased their holdings by about 95 per cent as compared with 160 per cent for the non-member banks.

Perhaps the chief significance of this lies in the fact that the non-member banks have not increased their holdings of direct obligations of the United States in the same proportion or in proportion to other banks. Investments in Government securities rose from $9,707,976,000 to $10,502,606,000, or by $794,630,000. National banks in-

creased their holdings by 11 per cent as compared with 4 per cent for the state member and non-member banks. At the end of the year, according to the F.D.I.C. report, national banks held 34.9 per cent of their total loans and investments in direct securities of the Government. The ratio for state member banks was 35.69 per cent, for non-member banks 12.9 per cent and for all banks in the deposit insurance system 32.05 per cent.

During the six-month period all banks reduced their investments in foreign securities by $37,954,000 to a total of $296,078,000. They increased their investments in state, municipal and similar securities by $132,635,000 to $2,410,628,000 and in other securities by $176,010,000 to $3,604,929,000. These increases were substantially proportional in all classes of banks.

The prevalence of idle funds is reflected in cash items. Vault cash in the banks increased during the six months by $169,742,000, or by an average of 27 per cent for all banks, 30 per cent for national banks, 26 per cent for state member banks and 23 per cent for non-member banks. The increase in exchange, outside checks and other cash items was much greater. The amount of increase was $736,320,000, or 120 per cent for all banks, 90 per cent for national banks, 165 per cent for state member banks and 23 per cent for non-member banks.

During the half-year period all banks reduced their bills payable by $27,959,000, leaving $40,504,000 outstanding, but a reduction of over a third in six months seems a very satisfactory record. The largest proportional reduction was in the obligations of state member banks. The banks also increased their fund for the retirement of preferred stock and capital notes and debentures by $2,635,000, and their capital was increased by $29,462,000, albeit most of it was borrowed from the Reconstruction Finance Corporation.

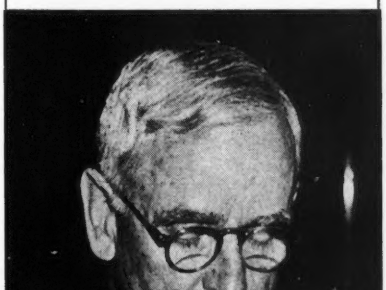
Other items in the statement are not so satisfactory. Surplus funds were reduced by $47,412,000, or 2 per cent; undivided profits by $6,720,000, practically all of which was in non-member banks; and reserves for contingencies were reduced by $21,130,000, or 16 per cent, in the face of a gain of 6 per cent on the part of the national banks. These latter items reflect reduced earnings.

Comparison of the December figures with those of last June gives an impression of abundant strength in a changing business. It gives evidence that the country has no longer any occasion for worry about the soundness of its banks or the abundance of available credit.

George E. Anderson

NAVY

Admiral W. H. Standley, Chief of Naval Operations. The largest scale naval maneuvres in American peace-time history begin May 3



HARRIS & EWING

Lobby and Window Displays

BANK displays of customers' products may be simple or elaborate, but they do not fully accomplish their purpose unless they are interesting.

As a rule, the more interesting the lobby or window exhibit, the greater is its public appeal. Much of the broader effect will be lost if the assembled material has little or no significance beyond establishing the association between bank and manufacturer or merchant. A few people may be impressed by the fact that a bank is doing some friendly advertising on behalf of a business firm, but if the bank's aim is to accomplish more than a mere recognition of an important customer, the promotional value of an exhibit will be greatly increased when it is forceful enough to command attention.

Preparation of pretentious displays requires time, effort and usually considerable space. However, a number of banks have worked out extensive programs along rather unusual lines, even to the extent of showing large machines and illustrating industrial processes. The purpose has been to make the exhibits as attractive and informative as possible by endeavoring to satisfy peoples' curiosity about the construction and operation of articles familiar to them.

Although no bank would find it convenient to set up a locomotive in the lobby, some institutions successfully show automobiles, furnaces, gasoline pumps and machines of various descriptions.

An illustration is to be found in the campaign conducted three years ago by an eastern bank. Early in 1932 this institution felt that it should work for the greatest amount of publicity at least expense and also for the good will of the community. Local industry was then at low ebb; the time seemed propitious for stimulating interest in the city's manufactures.

LOCAL INDUSTRIES

THE bank first approached the chamber of commerce, obtaining that organization's list of leading industries. The publicity director of the bank then called on 17 of the largest manufacturing establishments and offered each the use of one of the banking institution's show windows for the period of one week. If the goods to be exhibited were too bulky for window display, the manufacturer was told that he could put them in the lobby. The bank asked that all materials be delivered at least four days in advance, accompanied by suitable descriptive matter which could be used in preparing a story for the local paper. Whenever possible, exhibitors were requested to supply samples showing the development of their product from raw material to the finished article.

The series began with a display of electric machine tools for home use, three machines being set up in the bank lobby and others in the window. Subsequently the bank showed products of two silk mills, two hat manufacturers, a hosiery mill, a paper plant, a manufacturer of adhesives and a number of other plants.

One of the most spectacular exhibits was that of a truck maker. This was featured by a 125 horsepower motor set

up in the bank lobby and operated at low speed by means of a simple transformer. Another display attracting wide attention was installed by a printing press manufacturer who exhibited a machine which makes the matrices used in printing newspapers. Simultaneously, the window display illustrated other steps in the mechanical preparation of a printed page, together with the finished paper.

Each window display bore a sign giving the name of the manufacturer. There was also a card linking the exhibit with the bank's sponsorship of the entire series.

"We noticed," writes an officer of this institution, "that whenever a display was presented, employees from that particular factory would come to the bank, after hours or at noon, to see the products they had helped produce. In many instances these visits culminated in savings accounts or membership in our factory savings clubs.

"While considerable work was involved in running the series, the interest shown both by the general public and the officials in charge of the factories surpassed our expectations. We believe that the use of such displays is a valuable means of building up good will and appreciation of a bank's efforts to cooperate with local manufacturers."

A bank in another city has been making a thorough coverage of local industries through the medium of educational lobby displays. For example, a furnace company provided a complete gas furnace with air conditioning unit, labelled to show the various controls and unusual features. Interesting pictures of manufacturing processes and of other products made by the company supplemented the display.

WOOD DISPLAY

IN the same bank a veneer and panel company installed a large exhibit that attracted wide attention. It was featured by sizeable samples of rare woods, together with panels showing how woods are combined to make furniture and other products. Another section of the display explained a new process for welding veneers.

Each exhibit sponsored by this bank is the subject of a newspaper advertisement, prepared and paid for by the bank, which presents a brief description of the company and its goods, illustrated with pictures.

A bank in a western state has had several interesting experiences with displays of a similar nature. After it had exhibited a furnace and air circulator equipment a representative of the manufacturer reported three sales that could be traced directly to the bank's cooperative effort.

SOLICITOR GENERAL

Stanley Reed, recently sworn in as Solicitor General of the United States, had previously been general counsel of the Reconstruction Finance Corporation

U. & U.

Mailing Department Efficiency

ONE bank's mailing department has effected substantial economies as the result of a rapid and efficient system of handling the heavy correspondence received and dispatched by the institution.

All mail is grouped in four general classes: out-going, in-coming, registered and inter-office. Inasmuch as nothing is allowed to stack up, every item in each group is immediately taken care of.

The out-going mail is picked up by two "scouts" who throughout the day cover every floor and division of the bank. Brought to the mailing department in "scout bags", the letters are sorted into several trays. There are trays for over-seas, Canadian, branch, air-mail, city and domestic out-of-town items. From the trays the letters are carried to key-racks: one South American, one Canadian, one European, one Far Eastern, and one domestic, each divided into a number of boxes representing countries, states and territories. From the key-rack boxes the mail is further broken up and distributed in secondary racks into compartments for cities and banks.

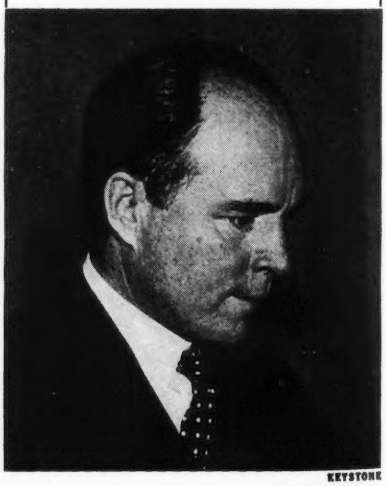
If there are several letters destined for a particular bank in Minneapolis, Stockholm or any other city, they are held in their respective compartments up to the time the next train, mail-plane or steamer is about to leave. They are then checked, sealed and stamped in a single stenciled envelope, which is given to a mail department employee for posting as per schedule at the proper mail receiving depot. Whereas formerly several letters to a particular bank might have been mailed in separate envelopes at a total postage of perhaps 49 cents, they are now dispatched together in one envelope at a cost of 9 cents. It is this part of the procedure that accounts for most of the saving.

Recognizing the advantages of accrual mailing, the bank has recently made it a point to recommend to its correspondent banks adoption of similar methods.

Of course, the system can be applied only to routine items and letters of general nature; but a very substantial por-

R. F. C.

James B. Alley (below) has succeeded Stanley Reed as general counsel of the Reconstruction Finance Corporation



KEYSTONE

tion of banking correspondence is of this type. Special items and more personal letters are mailed in separately addressed envelopes, and branch items are delivered by hand every morning to the respective branch offices of the bank.

The incoming mail is broken up every morning into two stacks, one containing letters addressed to bank officers, the other, correspondence addressed simply to the bank. The envelopes of the latter are then opened on three sides by machines and the contents removed. The envelopes are stored for purposes of record in the bank's vaults for a period of several weeks, after which time all interesting foreign postage stamps are clipped out and given to the employees' stamp club.

The correspondence is then arranged on several large tables and stacked according to divisions in the bank. For mail department purposes each division is known by a number.

All registered and insured mail, both outgoing and incoming, is handled in cages. Here several men, each a check on the others, seal and open the letters. Registry numbers, senders' and receivers' names, time received or dispatched, amount and nature of contents, are recorded with precision on designated forms. Everything is rechecked at the end of the working day.

Unlike other mail, the envelopes of incoming registered and insured items are saved in the bank vaults for a period of six months before they are discarded.

Buying From Customers

"OTHER things being equal," said the supply officer of a large bank which spends a substantial sum annually for stationery, blanks and the other essential operating tools, "we buy our materials from our own customers.

"Our first requirement, however, is that the price be right and if we can get a better bargain from a firm which is not a depositor we do not hesitate to take advantage of our opportunity. But on the whole we do most of our business with people who give their banking business to us.

"Sometimes a supply manufacturer will think that we are discriminating against him. It is not difficult to point out that he would have received the order had his quotation on our specifications been satisfactory, and he usually agrees that he has no just cause for complaint.

"It hardly seems fair that a bank should feel obligated to buy from a firm just because it is a customer. No doubt such situations are numerous, but a business-like approach to the matter might result in a mutually satisfactory solution."

Wall Space

UTILITY and decorativeness recently were combined by one bank in an exceedingly simple innovation.

On the walls in several departments of the bank are large maps representing the different continents of the world. It had been found that frequently employees wasted precious moments with atlases in checking up on the names and location of American and foreign cities. Points of origin and destination of drafts, bills of lading and other instruments had to be verified quickly.

Then somebody hit upon the idea of buying colored wall maps. Some are fastened to the wall with narrow wooden frames. Others are hung, like pictures, with glass covering and heavier frames. In either case they add to the room's appearance and cut down on the laborious turning of atlas pages.

Profitable Leisure

A LIGHTED sign reading "Hobby Show" introduced the visitor into a little world of bank employees' avocations.

Arranged on the walls, on tables and in glass cases in two upper rooms of the bank* building were afghans, airplane, locomotive and ship models, handmade Christmas cards, rag rugs, postage stamps, old coins, crocheted collars, published music, rag rugs and photographs, telling a vivid story of what members of this institution's staff did in their spare time.

As he entered, the visitor received a mimeographed catalogue which briefly described each of the more than 50 exhibits, giving also the name of the craftsmen. Many departments of the bank were represented; one particularly interesting display consisted of colored sketches of uniforms of imperial Russia, executed by a doorman who was once a Russian admiral.

A footnote on the catalogue said that with few exceptions every exhibit was entirely hand-made.

The show was the idea of the personnel department. It originated as the result of a conversation an officer of this division had with a friend concerning the profitable use of leisure. Surmising that many members of the employees' club had hobbies, the personnel representative thought it would be interesting and profitable to call attention to these activities. So he sent a memorandum to the various departmental and branch office heads outlining his plan and asking for the staff's cooperation.

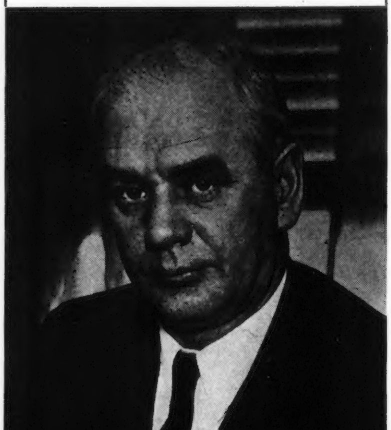
The response was immediate. A committee was appointed to complete the arrangements, an opening date was set, and the rooms prepared. Theft insurance to the amount of $4,500 was placed on the displays.

The whole venture cost the club about $20. During the first week more than 1,500 employees and their guests inspected the exhibits, and it was decided to keep open as long as interest lasted. Furthermore, it looks as though the show would be an annual affair. Already the staff is planning a "bigger and better" one for next year.

* The National City Bank of New York.

LABOR

Membership of Philip Murray on the National Industrial Recovery Board gives Labor the equal representation long sought. Mr. Murray is vice-president of the United Mine Workers of America



WIDE WORLD

Constructive Customer Relations

THE bank's problem after new business has been secured is one of human contacts, human relationships. The way to build constructive customer relations is to establish a point of mutual interest on the part of bankers, that is, in the services they can render. Banks have pointed out interest paid rather than the services they can provide. It is not the cold capital standing behind the banker but rather the personal friendly advice and aid which he can give to his clients that is appreciated and leaves the lasting impression.

PERSONAL ATTENTION

BANKERS have a tendency to allow a new account to become the "forgotten man" after it is opened. They should perceive the individuality of the client and invite him to discuss his affairs with the bank, explaining how the bank can be useful, and assisting him with his business. Profits for both will accrue and harmonious relations will be a reality.

We have had a philosophy of business easily understood and always employed—the philosophy of profits. The customer was valued only in so far as he contributed to greater dividends, larger surpluses or increased salaries. This policy must be abandoned and a new thought—that of rendering service to the individual client—must be substituted. Fortified with the knowledge of the customer's needs and the existing conditions of the community, the bankers will be better able to serve. The chief criticism of the banking profession has been that it is, as a whole, ill-informed or does not understand business problems so that it may disinterestedly advise the proper action.

Bankers who are familiar with the usual types of loans, such as secured or unsecured, individual or corporate, or foreign credits, will in the future be called upon to pass judgment upon special forms of credit from prospective clients.

Such transactions would include loans secured by inventories, chattel mortgage loans on equipment and machinery, assignments of accounts receivable, etc. Credits secured by conditional sales contracts are in the nature of special loans. These types of loans are now being solicited by very few banks but the business is highly profitable. The loans are handled by finance companies who have reaped lucrative rewards by offering their services and their credit.

Banks, generally, are unwilling to set up lines of credit for their customers, preferring to discuss each request for accommodation as it arises. However, borrowers and clients are more apt to deal with banks where definite commitment is made and lines of credit established for them. These credit lines have very definite values for the customer who is in a position to take advantage of profits in purchases of merchandise at the right moments.

Again, bankers should have sound, concrete plans for the correct employment of funds by clients. They should be able to advance constructive suggestions for the use of the money borrowed.

Banking is a partnership of public and banker working together to a common goal for common purposes. As soon as bankers realize that they can go to the client instead of awaiting the client's call, the more lasting will be the relationship and the more profitable the business, especially in the new business brought into the bank.

HENRY F. KOLLER

A Stenographic Training Unit

BANKS which have a central stenographic department find that it is a valuable training ground for women employees.

One institution uses this unit to introduce new secretaries—graduates of secretarial and high schools—to the general routine of bank operation. Under the guidance of four or five veterans these beginners pick up the essential steps in the procedure followed by the bank and are taught the value of efficiency and cooperation. Later, after sufficient demonstration of ability, they are promoted to positions of greater responsibility in other departments.

The central stenographic unit in this bank supplies emergency service to the various operating divisions. The department is relied upon to furnish stenographers to any department, either in head office or a branch, which needs secretarial assistance in a hurry.

Shifting from Bonds

(CONTINUED FROM PAGE 19)

The banks, then, were under no small pressure to seek elsewhere for new outlets for their funds. With unused credit lines to regular customers running into the billions of dollars, some of the banks felt that if reliable customers would not borrow for the usual purposes, perhaps they would borrow with other ends in view. Certain corporations were as keenly on the lookout to make the most, profitwise, of their income, and it was but natural that they should explore the possibilities of reducing the charges on medium and long term debt.

Insufficient experience has been had with these refundings for their popularity and breadth of application to be fully tested. Certainly they have had the effect of introducing the serial idea, long familiar in municipal bonds, into corporate obligations. They have had the result, too, of enlarging the supply of funds available for bond investment, for the holders of called bonds will have to look elsewhere for investment mediums. It is the belief of some bankers that the refundings of this type may be peculiar to the phase of specially easy money, marked by excess reserves ranging from 85 to 90 per cent above requirements, through which the banking system is now passing. They hold that when the normal amount of investment funds begins to flow again, and when the S.E.C. regulations get shaken down to what is clearly their permanent form, the capital market will insist on taking care of refundings and demands for new long term funds.

Personnel Conduct

To the Editor:

I HAVE often wondered if, when planning for the future, bank executives have given sufficient attention to what I consider one of the most important subjects under the heading of bank management, namely, personnel. In the past the banker has not been as discriminating in the choice of his employees as he should. The fact that a person elects to enter the field of banking should not necessarily mean that he is to follow such a course without having certain qualifications.

We are living in an age in which various changes have been made in our manner of living and I regret to confess that I do not see wherein these changes are resulting in any progress toward improvement in our moral standards.

I am mindful of the fact that we live in a country where a man has the right to do as he pleases; but I do contend that if he insists on following his own inclinations as regards his habits and deportment outside of banking hours, then the banks have an equal right in deciding whether they wish to number such a man among their employees.

The banks should have no hesitancy in taking a most decided stand in this regard, and it should be plainly understood that people of certain habits and tendencies will not find a place in any banking institution. Statistics prove that the majority of cases of stealing bank funds are due directly to the results of dissipation, and I am sure that a great many losses due to incompetent executive direction in the loaning of money or the investment of bank funds are traceable to the same cause.

The progress of the banks in the future is largely in the hands of the bankers themselves and if the details of the business are entrusted to the right kind of personnel an important step will have been taken.

ROYAL O. BYRD

Assistant Cashier
The LaGrange National Bank
LaGrange, Illinois

COMMUNICATIONS

Anning S. Prall (below) has succeeded Eugene Sykes as chairman of the Federal Communications Commission. Mr. Sykes remains a commission member

HARRIS & EWING

Man-in-the-Street Economics

By EARL E. MUNTZ

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IN a period of economic stress the thought and attention of almost every one is directed toward removing those obstructions which are the cause of our misery. Prosperity is the aim. But how shall it be achieved? What formulas would the average man, cornered and quizzed, offer for recovery?

Beginners in a class in elementary economics, who had not as yet had an opportunity to study the principles, were asked to formulate a program for recovery, setting forth five or six basic steps to be taken. This particular class was a mature group, many students having been out of high school and in business or industry for several years, thus providing a fair sample of the average man.

The programs submitted were for the most part as diverse and topsy-turvy as those with which we have become acquainted through conservative and radical Congressmen, economists, newspapers and other agencies. One of the most striking disclosures of the students' proposals was the fact that many who considered themselves dyed-in-the-wool conservatives espoused some decidedly radical suggestions, and vice versa.

In the list of "recovery measures" intended to overcome the depression, those steps suggested by the greatest number of students were in order as follows:

1. Further extension of public works.
2. Centralized banking control (although no one had very definite ideas as to the means of achievement, or the probable consequences).
3. Establishment of unemployment insurance or reserves.
4. Stabilization of currency.
5. Lower tariffs to increase imports, lower domestic prices and stimulation of foreign trade.
6. Limitation of hours of labor for all industry.
7. Abolish N.R.A.
8. Revamp and enforce N.R.A.
9. Governmental regulation and control of industrial and agricultural production.
10. Higher wages.
11. Minimum wage laws.
12. Disarmament.

Numbers 7 and 8 were equally popular. Of the other proposals, supported by a lesser number, sometimes by but one student, we find the following:

Further devaluation of the dollar.
Stringent governmental control and regulation of public utilities.
Increased income and inheritance taxes.
Lower taxes in general.
Governmental organization and control of the labor market.
Develop profit possibilities by increasing production.
Direct price fixing by governmental authority, not through the N.R.A.
Governmental regulation of consumption.
An increased tariff.
Slum clearance.
Better control and limitation of poor relief.
Universal legal reduction of interest charges on public and private debts.
One huge patriotic loan to cover estimated recovery costs for a few years.
Capital levy on wealth.

In the midst of this amazing array of recovery proposals it was surprising to discover not one direct suggestion for credit or currency inflation as such, although of course many of the plans offered would very quickly lead to those conditions. Another recovery scheme without supporters in the student group was the Townsend plan for old age pensions.

The really significant features of this survey are two-fold: (1) the utter dependence upon instrumentalities of law to cure every real and imagined evil and (2) the extreme suggestibility as to things economic exhibited by persons devoid of knowledge of basic economic principles. Economic remedies are concocted, accepted and offered for trial with the same abandon as though they were patent medicines. However, one great difference is to be noted. When the individual experiments upon himself, he alone is the sufferer if a mistake is made; if society is the subject of experimentation the entire population, figuratively speaking, may be poisoned with economic maladies spreading throughout the social body. And the antidote adopted for the original mistake is frequently of no avail for the newly created economic sores.

Important Books

INTERNATIONAL MONEY MARKETS. By John T. Madden and Marcus Nadler. Prentice-Hall, 1935. 535 pp. $5. The purpose of this book by two New York University professors is "to analyze the changes in the rôle of gold and the causes of its collapse in the post-war years; to study the functions and operations of the international money and capital markets; and, above all, to describe the organization and operation of the leading international financial centers." The latter subject fills the greater part of the volume.

"So far," remark the authors, "no definite standard has taken the place of the gold standard. Managed currency, although advocated by many, has not been adopted by any country. The sterling bloc and the United States gold standard of 1934 are at best makeshifts intended to bridge over a difficult period until the international horizon becomes clearer and a return to more normal currency conditions is possible. The revolutionary changes that have taken place during the past few years in the field of international banking and in the money market machinery of the principal financial centers are but a reflection of the underlying economic philosophy that dominates the world at the present time."

PERSONNEL PROGRAMS IN BANKS. By Eleanor Davis. Published by the Industrial Relations Section, Princeton University, 1935. 56 pp. $1. A very practical study of "the personnel plans and methods in effect in fifty outstanding banks, both large and small." In addition, there is a bibliography.

THE FUTURE OF MONETARY POLICY. A Report on International Monetary Problems by a Group of the Royal Institute of International Affairs. Oxford University Press, 1935. 214 pp. $4. This is a detailed analysis, by a distinguished group, of the problems faced by those engaged in the many-sided business of dealing in money. It is the final report of the Group which in 1933 published *Monetary Policy and the Depression.*

The present volume discusses: problems of policy; monetary policy and production; and monetary policy in the international sphere, making numerous subdivisions of these broad topics. One chapter is devoted to the part that might be taken by special international organizations, such as the Bank for International Settlements, in working out certain difficulties. The Group also endeavors to appraise the position of gold as a currency base and discusses problems related to monetary reconstruction.

The authors, in brief, have aimed "at providing a background of established fact and of current theory for those readers who desire to follow in some detail the points at issue in regard to a highly controversial problem."

SPENDERS ALL. By Ernest Greenwood. D. Appleton-Century, 1935. 234 pp. $2. "A ruthless exposition of the burden of taxation." Facts and figures, stated plainly, about a vital problem.

RAND MCNALLY BANKERS DIRECTORY. First 1935 Edition. Rand McNally. 2,408 pp. $15. This is the 118th edition of the widely used "Blue Book".

Before the F.H.A.

THE bank secretary, to celebrate the 50th anniversary of his connection with the institution, gave an interview. Reporters went to his office primed for a human interest story on the good old days—quill pens, high stools, round-shouldered bookkeepers, inadequate lighting, unwieldy ledgers and operating methods unfamiliar to an era of deposit insurance.

"Yes," the secretary told them, "banks were run like that half a century ago. So were railroads and dry goods stores. But although the tools we all work with have been improved, the material we work on hasn't changed so much. And some of the things and ideas we think of as new aren't so new after all. They just have a different look."

He pointed out of his window.

"That house over there," indicating a trim dwelling, freshly painted, "is one we took over on foreclosure a month or so ago. We gave it a thorough renovation, partly as a little contribution to the success of the housing campaign, and partly because a house in good repair is a much better asset than one that is shabby. We rented it almost immediately. Our new tenant was pleased to find a clean, up-to-date home. He was good enough to say that it was the best value he had seen, and he thinks the bank is a very considerate landlord.

"Two blocks down the street is another house we acquired some time ago, although we don't own it now. When we were forced to take possession it was badly run down, virtually unrentable and certainly unsaleable. We had it repaired as an experiment, you might say, in the development of a real estate policy. That house rented, too, and eventually we sold it.

"In the last few years we have been obliged, unfortunately, to take over a rather large number of residential and business buildings. Each one has been reconditioned under supervision of the architect we hired soon after we decided that properly maintained real estate was profitable. And we have been able to sell or rent—mostly rent—every one, even in the midst of a real estate market that was generally regarded as immobile.

"Of course we are pleased that we have been so successful. But the point is that banks all over the country have been doing much the same thing for years. Today we put in oil burners whereas two decades ago we installed hot air furnaces, or we re-roof a garage instead of a barn. It's just a difference in styles or standards.

"In hard times banks always have landlordship thrust upon them and they know that they must accept the responsibilities that go with it. Experience has taught them that the adequate upkeep of real estate is essential to the protection of their investment.

"All this, of course, merely illustrates the fact that fundamentally banking services undergo little change. Credit finds new employment in each generation, and always will, for under our system it makes possible industry and trade. Yet the nature of the contract between borrower and lender remains the same. There is no basic difference between the ledger entries we used to make with pen and ink and those we now handle with mechanized systems."

Safe Deposit Services

THE safe deposit company is one of the few business enterprises which is conducted much as it was 50 years ago, and the simplicity and structure of its plant and its operations is such that, unlike the business of its parent, there are few opportunities for curtailing expenses to meet reduced income. Yet in the case of a deposit company owned by a bank it is essential not only that the company should not lose, but that it should return a reasonable dividend on the investment made in it.

While some safe deposit companies have enjoyed through the depression a sheltered existence, others have had to grapple with problems which threatened their existence as going concerns. Studies of how managers of these companies have met the problems created by reduced box rentals and the increase in number of boxes whose owners have defaulted on their bills indicate that more effort has been spent upon devising new and wider services than has been devoted to curtailing expenses.

The kinds of new business with which safe deposit companies are seeking to supplement the income received from the diminished number of coupon clipping customers may be illustrated by enumerating some of the fields which have been canvassed. One company systematically went after all the lawyers in its town and offered the use of some idle facilities for the storage of records pertaining to old cases. This was not lucrative, because lawyers generally hire vacant rooms in storage warehouses, far from their offices, at low rentals. Still, what business was gained helped.

Some safe deposit companies go into the fur storage business on a moderate scale and, of course, hundreds do a business in storage of flatware of silver or silver plate. This usually requires special facilities.

One of the most novel fields is that developed by a safe deposit company in a large city, which seeks from transient visitors in town the care of their money, valuable papers or jewelry. It assures fireproof modern storage, accessible to the customer personally, at rates which are collected on a weekly basis, the rate being marked sharply higher than annual rates. For instance, for a box renting at $5 yearly, a charge equivalent to $12 yearly is imposed when it is leased on a weekly basis. This means only $1 a month, but the visitor to the city who likes to handle his valuables in person often jumps at the chance to pay 50 cents or $1 for two weeks or a month. From the safe deposit company's standpoint, it has to charge a high rate to make up for the transients who are suddenly called out of town and who go with both keys, which means that the company has to keep after them or wait until they come back to town again. It means also that, unless several weeks' rent has been collected in advance, it has to wait for the money and possibly argue about its fee when the latter rises to figures which look large.

FIRE PROOF STORAGE

THE average safe deposit company is not equipped to go into active competition with storage warehouses, though there may be fields in which it can offer the warehouse competition if the articles to be stored are not too bulky. Storage warehouses usually have two kinds of rates, one applying where no responsibility is assumed for fire, which is low, and the other when there is insurance against conflagration. The latter is high. If a deposit company finds that the rates for storage of small articles with fire protection are unduly high in its vicinity, there may be an opportunity for some competition.

Geographical location, the presence or absence of commercial storage enterprises and the character and extent of a safe deposit company's idle facilities all have to be considered in relation to the individual company which is seeking to better its position and justify its continued existence. The growing custom of banks of charging a fee for their custodian, or temporary safe-keeping, facilities removes one of the threats to the safe deposit company.

The great appeal of such a company is and always has been the personal access to valuables and intimate papers which the customers of the company enjoy. There will always be a demand for this service and the chief aim of the safe deposit company should be to employ "idle plant capacity" at some return until the time arrives when more people have more things of greater value to place in vaults.

Bond Portfolio

For Example—

Rating		U. S. Gov't and Municipals	Railroad	Utility	Industrial and Misc.	Totals	Per Cent
AAA	Excellent........	$1,058,000[1]	$553,000[1]	$311,000	$17,000	$1,970,000	43[1]
		1,114,645[2]	588,401[2]	320,720	17,675	2,041,441	48[2]
AA	Good............	....	722,000[1]	673,000	....	1,395,000	31
		....	752,373[2]	701,322	....	1,453,697	34
A	Fair.............	131,000[1]	259,000	348,000	....	738,000	16
		122,500[2]	240,503	319,922	....	682,925	14
Baa	Poor............	....	50,000	230,000	....	280,000	6
		....	25,625	120,460	....	146,085	3
Ba	Bad.............	....	135,000	....	25,000	160,000	4
		....	47,137	....	5,700	52,837	1
	Ungraded........	....	....	....	....	....	..
TOTALS		$1,189,000	$1,719,000	$1,562,000	$42,000	$4,543,000	
		1,237,145	1,654,039	1,462,424	23,375	4,376,985	
Per cent		26.7	37.8	34.6	.9		
		28.3	37.7	33.5	.5		

[1] Par value. [2] Market value.

(CONTINUED FROM PAGE 16)
glance to ascertain the condition of the investment holdings.

There may be many variations of this table—in fact, some use three separate tables to show par values, book values and market values. Others use a single consolidated table in which the three values are shown.

Presumably, the directors and the officials in charge of investments must make the arbitrary decision as to what percentage of total holdings the bank should hold in the various classifications. If some such table is used and kept up to date—say, quarterly—it may prove helpful in preventing the purchase of too great an amount in any one field of investment. There will be less chance of acquiring too many low-rated issues, and of buying too many of like maturity. In brief, if such a table is consulted before new purchases are made there will be less danger of a top-heavy list.

It is not always practical, of course, to restrict purchases entirely to the very highest grade, "gilt edged", low income producing issues. Also, individual judgments will vary to a considerable extent as to just what is the proper proportion of excellent, good and mediocre issues to hold. If the decision is sound it will go a long way, over a period of years, toward increasing the income return and minimizing the principal losses of the investment portfolio.

In periods of poor business earnings, naturally many issues of formerly high quality will have their ratings reduced. As the percentage of lower rated issues increases beyond a certain figure, the problem of selling some and accepting the relatively small losses prevailing must come up. The cancellation of insurance on properties that have developed defects has saved the shrewd insurance underwriter many dollars, even though some loss must be absorbed.

If a table of the kind shown proves to be effective in keeping the proper proportions of type and quality of bonds, there still remains the matter of maturities. Perhaps that problem is troubling the banks more at present than the quality of bonds to be bought. Any attempt to forecast the future course of interest rates seems sheer speculation.

A table somewhat like the one given below shows at a glance bonds coming due year by year:

MATURITIES OF BONDS

Years		Per cent
Within 5 years.	$710,972	16
1940–1944.....	780,862	17
1945–1949.....	863,000	19
1950–1954.....	446,500	10
1955–1959.....	280,000	6
1960–1964.....	310,666	7
Over 30 years..	810,500	18
In Default.....	340,500	7
TOTALS........	4,543,000	100

A maturity table can be as elaborate as the facilities of the bank permit.

Normally, a more or less even distribution of maturities over the years appears to provide a nearly perfect hedge against any contingency. Following this formula, when funds come in for investment, instead of attempting to determine whether long or short maturities are the better value, bonds would be bought maturing in years where the least amount is held.

Branch Banking (IV)

(Continued from page 43)

would not only perform the duties of others and therefore would, in a sense, scuttle a considerable investment in plant and human material, but they would pile up for themselves a burden of extra labor which might easily become well-nigh intolerable, due to frequent interruption of normal duties by improperly directed out-of-town visitors.

It is possible of course that some head office officials might occasionally feel obliged to invite visitations from branch patrons. When they do, they will usually be sincerely desirous of rendering what they deem the most efficient service to the patron or to the bank itself; others may have more confidence in their own ability to arrive at a competent decision in a particular instance than they have in the branch manager's. But whenever they do invite a patron to come to headquarters it is for them to weigh in the balance the importance of the particular problem at hand as compared with the ultimate effect of their action on the morale of the branch and the future attitude of its patron. In any event, there can be but one unassailable reason for the invitation and that is for the purpose of obtaining more information direct from the branch patron than can be obtained by correspondence.

The patron himself, on the other hand, has but one real excuse for going to head office and that is for the purpose of registering there directly such intangibles as external evidences of character, vigor, personality and so on, qualities which cannot be easily conveyed by telephone, telegraph or letter. Only in extremely rare cases is this at all necessary. Loans, particularly large loans, must have a great deal more back of them than the difficult-to-transfer picture of the borrower's personality to warrant their being made.

Should the head office official go beyond the point of merely seeking to obtain information and make answer to the branch patron even to the extent of granting then and there the credit, his action in doing so can usually be attributed to carelessness or a possible hope of making himself an heroic figure in the eyes of the patron. Carelessness can of course be forgiven if the offender promptly corrects the error; but if he should insist on continuing the practice the offending official would be not only guilty of prostituting his own position—which in a large branch system should be that of an administrative, not a lending, officer—but he would run the risk of laying himself open to the suspicion that he might be motivated by an unfair attempt to build his own personal popularity or reputation for being the final arbiter in credit matters—at the expense of the local standing of the branch manager. It would be idle to expect that the latter individual would fail to resent it. He would know only too well that ever after a branch patron so answered would have little less than mild contempt for his powers and prestige, that such a patron would thereafter snap his fingers at the branch and run to head office with his smallest problems.

There may be, of course, some branch managers who would deliberately sacrifice their local standing by sending patrons to head office for answer to their credit applications. Some men would do so because of an unwillingness to assume responsibility and a weak desire to put the burden of making the decision on other shoulders. If the practice should become a frequent one and be long continued it would not only become progressively more and more destructive of the offender's self-reliance, but it would gradually wear out his usefulness in the eyes of head office. Salaries are paid branch managers for assuming legitimate and proper burdens, not for avoiding them.

One of the most difficult tasks in a large branch bank is to determine the boundaries of head office functions in credit matters. Theoretically, they are purely administrative; but, practically, various forces tend to break down this position. There is a tendency for large borrowers to gravitate to head office; and there is a tendency for head office officials to wish them to, particularly in the field of so-called policy loans. Some large loans are made at head office because of their special importance; the decision to make them is so weighty that it is generally felt that the highest officials alone have the authority, the experience and the capacity to pass on the problems involved.

There may therefore be some excuse for the occasional extension of large credits by the supreme credit authorities in a large bank; but there can be no excuse whatever for their having much to do with granting smaller lines—a dictum which will stand for minor as well as major head office officials. The reason is that duties must be divided somewhere in a large organization; and when once they are divided, authority is given and responsibility exacted, there should be no infringements or overlapping. Should that occur, authority is flouted, responsibility scattered and morale more or less ruined all down the line.

Furthermore—and this is usually a difficult matter for a young branch banking system to grasp with any definite clarity at first—the head office of a branch bank properly organized is not a branch or even a bank in the regular sense of the word. It should have no liabilities in the form of deposits or assets in the form of loans. It should be purely an administrative and coordinating body. It should not contain any machinery for handling the detail of loans and deposits—for that would be an expensive and useless duplication of facilities. The head office can be, of

course—and usually is—located at or near a good-sized, but entirely distinct, branch; but such propinquity is not at all necessary.

The confusion and uncertainty about powers and prerogatives of lending officers from the lowliest branch up to and through head office administration are usually settled by the establishment of a graduated lending power, each establishment of authority being usually approved by the next higher authority. The branch manager gives to his assistants certain limitations beneath which they can make their own decisions in credit matters, subject, of course, to his later review. The branch manager's immediate superior, perhaps a district supervisor or other head office official charged with immediate superintendence of his branch, may approve of his action.

HIGHEST LOAN OFFICER

THE branch manager's own lending power is established by his district supervisor. There the granting of actual lending power should stop. In other words, in a theoretically perfect branch organization, the highest ranking lending officer should be a branch manager—and that for the reason that the branch manager represents the highest official who, in the ordinary and proper course of business, negotiates directly with borrowers. All above him are administrative officials, men who are charged more with examination and supervision of credits already made than they are with making new ones. That is the principal objection to the making of loans by administration officials of a head office. Who is to check them? It is a bit incongruous to combine a lending officer with one who supervises loans. An accused should never be his own judge.

Some one, however, must pass on loan applications which exceed the branch manager's limits. Authority is given by the high command to the district supervisor to approve—but not to make—loans referred to him by the branch for all credits exceeding the branch's limit, but under the limit set for the distinct officer or his assistants. The branch's limit, for example, may be $10,000; the district supervisor's ten times that sum. Applications beyond that figure must be referred to a higher authority, sometimes the bank's chief credit officers usually acting as a committee of two or three, the smaller the better, both for efficiency and economy of time.

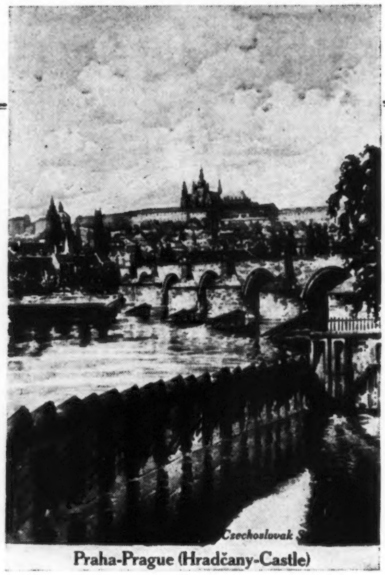
This system should take care of every size and type of loan application offered the bank. It provides the machinery for negotiation, approval, examination and supervision of all loans.

In conclusion may I say that we have attempted to explore the highways and byways of credit management in a good-sized branch banking institution, to delve into some of its underlying philosophies, to point out systems and schemes of organization, to portray the strength and the weaknesses that are inherent in such systems, the part that human temperament, emotions, ambitions and frailties play in building up and tearing down. And if I should be asked what in my opinion is the most decisive factor of all, I would say men.

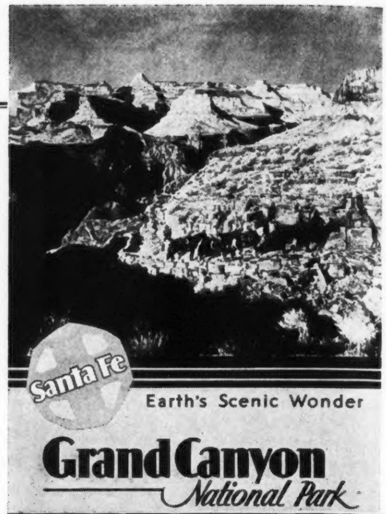
No stream can rise above its source—and in branch banking, as in few other commercial institutions, the source of the stream is men. It is axiomatic that the high command of any bank should be exceedingly competent professionally and impeccable ethically. Even then it will fall far short of its goal if it is not wise in the selection of the men it places in direct charge of its branches. For the branches are the bank. They are the firing-line which meets, serves and, in a very large sense, controls the bank's patronage. They actually run the bank; for they gather the deposits and make the loans. Head office administration is merely a coordinator, a maker of policy, it is true, but all it can do is to see that its policies are properly carried out.

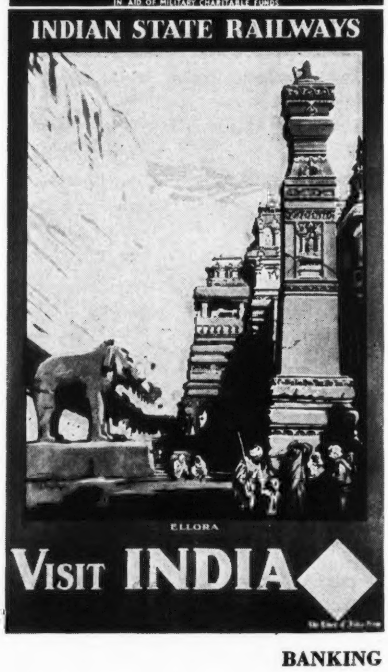
Its credit management very patently consists principally of visiting the patient after the disease has been contracted. Practice preventive medicine as much as it will, establish rules to avoid in the future every mistake made in the past, tie down—in so doing—the capable to take care of the sins of the incapable, head office cannot be everywhere at one and the same time. It must delegate power and authority to those it can trust. It must not attempt to exact responsibility without granting equivalent authority, for the human machine will not be able to function under such conditions.

It is for such reasons that I reiterate that the crux of the branch bank credit problem is men. No system can overcome their failings if they are weak. Good men will run good branches and poor men will run poor branches. I have never known it to fail. It is far better—and less expensive—to employ good men at the start and to turn them loose to run their branches as they deem best than it is to employ poor men and attempt to anticipate and prevent their mistakes by routine, organization and minute supervision.



Praha-Prague (Hradčany-Castle)





Banks and Travel

Letters of credit, currency conversions, transportation reservations, safe-keeping of valuables, checks and drafts, servicing of domestic accounts, the sale and cashing of travelers' checks, forwarding of mail, letters of introduction, custodian accounts, trust services, planning of itineraries—

THESE are a few of the services which make banks an important part of America's five billion dollar travel industry.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

CONVENTION CALENDAR

A. B. A. Meetings

June 10–14 A. I. B. Convention, Omaha, Nebraska
Nov. 11–14 A. B. A. Convention, Roosevelt Hotel, New Orleans, Louisiana

State Associations

May 7–8 Oklahoma Bankers Association, Biltmore Hotel, Oklahoma City
May 9–10 Arkansas Bankers Association, Goldman Hotel, Fort Smith
May 9–10 North Carolina Bankers Association, Carolina Hotel, Pinehurst
May 14–15 Mississippi Bankers Association, Hotel Vicksburg, Vicksburg
May 14–15 Missouri Bankers Association, Elms Hotel, Excelsior Springs
May 15–16 South Carolina Bankers Association, Fort Sumter Hotel, Charleston
May 16–17 Alabama Bankers Association, Mobile
May 16–17 Kansas Bankers Association, Topeka
May 17–18 New Mexico Bankers Association, Roswell
May 20–21 Illinois Bankers Association, Orlando Hotel, Decatur
May 21–22 Maryland Bankers Association, Lord Baltimore Hotel, Baltimore
May 21–22 Tennessee Bankers Association, Chattanooga
May 21–23 Texas Bankers Association, Galveston
May 22–24 California Bankers Association, Del Coronado
May 23–24 Georgia Bankers Association, Sea Island Beach
May 23–24 South Dakota Bankers Association, Sioux Falls
May 23–25 New Jersey Bankers Association, Ambassador Hotel, Atlantic City
May 30–June 2 District of Columbia Bankers Association, Hot Springs, Virginia
June 3–5 Iowa Bankers Association, Ft. Des Moines Hotel, Des Moines
June 5–6 Indiana Bankers Association, Claypool Hotel, Indianapolis
June 5–7 Pennsylvania Bankers Association, Hotel Casey, Scranton
June 6–7 Massachusetts Bankers Association, New Ocean House, Swampscott
June 6–10 New York Bankers Association, Sagamore Hotel, Lake George
June 7–8 Connecticut Bankers Association, Griswold Hotel, New London
June 7–8 West Virginia Bankers Association, White Sulphur Springs
June 12–13 Ohio Bankers Association, Gibson Hotel, Cincinnati
June 17–18 Oregon Bankers Association, Salem
June 17–18 Utah Bankers Association, Newhouse Hotel, Zion Canyon National Park
June 19–20 Minnesota Bankers Association, Nicolett Hotel, Minneapolis
June 20–21 Washington Bankers Association, Winthrop Hotel, Tacoma
June 20–22 Virginia Bankers Association, Homestead Hotel, Hot Springs
June 21–22 Colorado Bankers Association, Troutdale-In-The-Pines
June 21–22 Maine Bankers Association, Rangeley Lakes Hotel, Rangeley
June 24–26 Michigan Bankers Association, Olds Hotel, Lansing
June 25–26 Wisconsin Bankers Association, Green Lake
July 19–20 Montana Bankers Association, Many Glaciers Hotel, Glacier National Park
July 22–23 Idaho Bankers Association, Yellowstone National Park

Other Groups

May 8–10 National Association of Mutual Savings Banks, Waldorf-Astoria, New York, N. Y.
June 7–8 National Safe Deposit Association Convention, Berkeley-Carteret Hotel, Asbury Park, New Jersey

Spring Fashion Parade

SMITH IN THE SAN FRANCISCO EXAMINER

INDEX TO ADVERTISERS MAY 1935

ETHICS or moral standards are as old as civilization; in fact, civilization is based largely upon written and unwritten codes of ethics.

Regardless of who the individual is or in what walk of life he may be found, he has a code of ethics. To a large degree he conducts himself in relation to others according to his interpretation of what is an honorable and just procedure in each case.

Within recent years the American Bar Association has adopted a written code which is a collection of the ethical principles of the legal profession as they have been developed through the ages. The medical profession has its code, and so we find that it is unethical for one physician to take a case being treated by another except upon the invitation and approval of the attending physician.

Although bankers have been slow to adopt a written code of ethics, no one can gainsay that they have to a large degree conducted themselves according to a high standard of business principles. But thus far each has acted individually according to no definitely stipulated code of principles, but individually according to his understanding of the ethics of his profession. While there is little room for criticism of the banker's conduct, a period in banking development has been reached when some thought might profitably be devoted to the formulation of a standard of principles as a universal code for the guidance of all bankers.

The high pressure of modern banking, accentuated daily by keen competition for new business and for social and commercial prominence, may well serve to emphasize the importance of a written code of banking ethics.

To formulate such a code is a task calling for the cooperation of all members of the banking fraternity. The principal foundation stone unquestionably should be the Golden Rule, and the keystone in the arch of this structure should stand for confidence among men.

This code should constantly serve as a guidepost marking the way for the conduct of every banker. It should insure to all with whom the banker comes in contact a square deal. Guided by this code a banker's conduct should be such as to inspire confidence in him on the part of others, and, through him, confidence in banking practices. It should be instrumental in maintaining at high levels a due regard for the honesty and integrity of every banker.

The principal objective of a code of ethics between the banker and his patrons should be to inspire implicit confidence in their dealings—the banker to have full confidence in his patrons and the patrons to feel that their banker will not take advantage of their lack of business experience, but will fully safeguard their interests.

As the relationship is one of trust and confidence it should be clearly set forth in our code that it is unethical for a banker to disclose to an inquirer any information as to his customers, except upon written request from them to do so. Even to intimate that the person inquired about is a depositor should be regarded as being unethical, except, of course, upon the depositor's orders. . . .

As bank depositors trust their banker to treat them fairly, it would be unethical for a banker to meet the unwarranted and undeserving demands of certain customers for special favors if he does not voluntarily offer the same benefits to other equally valued customers simply because they do not demand them. For example, it is unethical for a bank to pay 4½ per cent to a comparative stranger in order to get his account when it only pays 4 per cent interest to its old depositors whose business is equally valuable and who rely on the bank voluntarily to give them every advantage which it has to give without demanding it under threat to close their accounts. It would be unethical for a bank to reduce its lending rate in order to get a new commercial account when it is charging its old customers, who are equally valuable, a higher rate. The conclusion then is that the granting of special favors as an inducement or bait for new depositors is unethical banking. . . .

According to our bankers' code of ethics it would be unethical for a banker to use the information contained in a customer's financial statement for any purpose, except that for which the information is furnished, or to misuse the information disclosed by a customer's account. It would be unethical for a banker to furnish a list of the names of his customers to any person or number of persons engaged in the financing business, or in real estate, or insurance, or promotions, or for that matter, in any line of business.

TEN YEARS AGO

In view of the current wide interest in the status of banking as a profession, an article by W. R. Morehouse which appeared in the November 1925 issue is here reprinted in part. The illustration at the top of the page is from the cover of that issue